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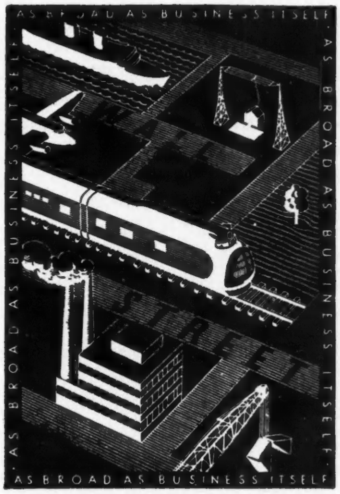
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

IN THE BALANCE . . . As usual, Russia's real military strength—or weakness—is a mystery. She is gladly accepting all aid we and the British can send—and is clamoring for a second front to be opened; but she is fighting her own war in her own way. Neither American-British correspondents nor military observers are permitted to go near the fronts.

Supposedly "expert" opinion on Russia's prospects runs the gamut from despair to optimism. On a very recent night a prominent radio commentator stated without qualification that the great bulk of the Red Army's mechanized equipment had been lost, that the industrial resources for making it up are woefully inadequate, that the Russian troops were fighting with little more than rifles, and that the Red Army is doomed to early disaster—unless a second land front is opened in the west "immediately." Against this hysteria, observers who have spent much time in Russia—some but recently returned—state that there are great resources of materials and factories back of the Urals, and predict confidently that winter will find the Red Army virtually as formidable a fighting force as it was last winter, nowhere near fatal defeat or surrender.

Our more objective military experts, such as Hanson Baldwin and Major Elliott, are keeping their fingers crossed and their feet on the ground. They say it is too early to draw more than the most tentative conclusions on the very sketchy evidence that is available. At this distance, no one can know to what extent the German advance reflects irresistible power or to what extent it reflects merely the typical Russian tactics of retreat in good order, drawing the enemy out while the counter-attack is prepared.

It may perhaps be worth noting that the official Russian comment remains calm and, on the whole, confident. At this time a year ago, the Nazi machine in Russia also seemed to be able to sweep all before it—but it was stopped. Will history repeat? We don't know, but our *hunch* is that it will.

TEST OF AIR POWER . . . Over the past two months the British have several times concentrated as many as 1,000 bombers over German industrial cities, one by one, and in various other attacks have used from 300 to 600 bombers. Comparing the tonnage of bombs dropped with the considerably smaller tonnage of German bombs that did such great damage to Coventry and other English cities, it goes without saying that the recent British attacks certainly reached a new high in bombing effectiveness by a very wide margin.

Yet that is just the start. American planes, airmen and ground crews are being assembled in England as

Business, Financial *and* Investment Counselors · 1907—*"Over Thirty-Four Years of Service"*—1942

rapidly as possible for early offensive action. British Air Marshal Harris recently broadcast that Germany will be "scourged from end to end by the Allied air forces." While weather conditions impose large day-to-day and week-to-week variations in bombing activity, it is quite certain that on a monthly basis the intensity of this air campaign will steadily increase. Well qualified air experts believe it possible to push up the monthly totals by winter to the equivalent, in total destructiveness, *of a nightly average of 1,000 bombers.* For the present at least, it is clear that Germany has no adequate defense against such mass attacks, concentrated over single cities within a time of an hour or two.

Some air men claim air power can of itself win the war. Others merely say it is by far the most decisive single factor. On the evidence to date, even the layman can conclude that the advocates of air power have been generally on the right track, and that the country has not been well served by the military traditionalists whose doubts have slowed realization of the full potentialities of the air arm. To say that the Germans could not knock out England by bombing attacks proves exactly nothing. That is like saying that if a dozen 75's, firing 1,000 rounds, fail to reduce a given target, that proves the limited usefulness of artillery. What it proves is merely that you need more guns of larger calibre, firing more rounds. The same is true of bomber attack. Air war is revolutionary and far from the ultimate status. Its results today are but a partial guide to the results possible three months hence, or a year or two years hence. Before winter ends, it is at least conceivable that our air power may have drastically altered the whole war prospect. Certainly there is much to be gained from this fateful effort—and little to be lost, as compared with the large losses inevitable in any attempted land invasion, whether premature or on full and most carefully planned scale.

PROFITS VERSUS WAGES . . . It remains to be seen what will materialize from the President's search for ways and means of further combatting inflation—including wage inflation—without further legislation by Congress until after the elections at the earliest. It's a knotty and complex problem. Even in England wages have not been frozen, although the sum-total of British controls—especially high income and consumption taxes and widescale rationing—promise much more effective anti-inflation results than do the measures we have thus far adopted.

Meanwhile it is ironical to note that the ground is steadily being cut out from under the feet of the labor union leaders who for months have been citing "huge corporate profits" as a supporting argument for higher wages. A National City Bank compilation of the first half-year income statements of 180 manufacturing corporations shows an aggregate decline of 37 per cent from the first half of 1941. Against this it might be noted that the Department of Commerce index of wages and salaries paid for the latest available month was nearly 25 per cent higher than a year before.

Moreover, reported corporate profits today mean less than they normally do. Large portions of net earnings must be retained in the enterprises for working capital needs. Presumably the unions don't object to this. Without adequate working capital to finance inventories and receivables, there would be less production, less employment and less wages.

Are the demagogues of Labor critical of the dividends being paid? On this, they are on still weaker ground. Judging by indications to date, total dividends this year will not exceed \$4.4 billions and may be less. This would be some 25 per cent *less* than in 1929—while total wages and salaries will be at least 45 per cent *greater* than in 1929.

A good many people—including the editors of this Magazine—are convinced that the heads of most labor union leaders have become much too big for their hats. It's high time they joined the rest of us in the war sacrifices.

REDUCTION OF DEBT . . . While so many eyes are focused apprehensively on the mounting public debt, it is at least to the good that the total of *private* debt is being importantly reduced. On the one hand, private debt reduction is a partial offset to the inflationary effects of rising consumer income. On the other hand, the individuals and corporations reducing their debts will be in a stronger position to meet such shocks and adjustments as will confront them in the post-war period. On both counts, the movement is highly desirable. So much so, in fact, that it is regrettable that the Administration has not given more sympathetic attention to the idea of providing income tax allowances which would make possible and induce a faster rate of private debt retirement.

Of course, the most rapid reduction of debt is now going on in the field of consumer credit. Installment debt will tend virtually to disappear, since consumers' durable goods are no longer being produced and old loans are being progressively wiped out. The re-creation of consumer installment debt in normal volume after the war would be of itself a major economic stimulus. Retail charge accounts are also dwindling in total.

Mortgage debt, both urban and rural, will decline substantially—since increased individual incomes are being applied in part to reduce such outstanding obligations, while restrictions on new building greatly limit new mortgage financing.

It is to be doubted that there can be any important net debt reduction among industrial corporations and utilities—but there will be at least some, since new bond financing is negligible and amortization provisions will continue to scale down old obligations. In the aggregate, funded debt is not a real sore spot for either manufacturing industry or the utilities. On the other hand, it is a major factor for the railroads and they are using the bulk of their very high war time earnings to get rid of as much debt as possible.

HOW NOT TO DO IT . . . Congress has passed a bill which, in effect, would virtually take control of the

synthetic rubber program out of the hands of the War Production Board. It would make mandatory the production of a large amount of rubber synthetics from alcohol derived from farm produce, and give this program priority on materials for new plant construction.

The President's past tendency toward dispersal of powers among the administrative agencies and division of responsibility has been bitterly criticized in Congress. Yet here is a majority of Congress determined to divide responsibility and authority in the rubber program. Why? Because the farm bloc thinks this is the way to please its constituents and get votes. We don't think so.

Yet, foolish as it is, this action may do some good if it induces the Administration to raise its sights on synthetic rubber, end the present confusion in the program and in the public mind, and get down to brass tacks. Probably the President will veto the bill. Before there is any attempt to pass it again by an overriding vote, the Administration should strive to set up a revised rubber program that will command the confidence and support of the public and of at least the less greedy members of the farm bloc. From expert testimony, it does appear that farm-derived alcohol can validly be given a larger place in the over-all program than WPB first gave it.

A SANE TAX PROPOSAL . . . Of all types of war-time taxes, the excess profits tax is accepted by the public as most logical—though there is room for valid differences of opinion as to precisely what the rates should be. It is Government money that is financing the orders. No corporation should be permitted—and none is being permitted—to wax fat on this business.

But if the principle is right and sound—as it indubitably is—why should its application be confined to corporations? Why should individuals be allowed to retain the great bulk of their excess "profits"—that is, income? For corporations, "excess profits" over the average earning power of 1936-1939 are subject to 90 per cent confiscation in the pending tax bill, after payment also of 45 per cent normal tax plus surtax. Well, individual Americans this year will have at least $40 billions more income in the aggregate than they had over the average of the years 1936-1939. The Government's war spending caused this "excess income" just exactly as it caused the excess corporate profits.

If even one-third of every individual's *gain* in income, as compared with the last pre-war year, were taken back by the Government, that would virtually end all debate on the threat of inflation. Senator Connally is reported to be looking into the possibility of such a tax. No doubt the administrative difficulties would be great. Also the idea would not be liked by those New Dealers—and there are some—who are fighting not only a war but a social revolution. But if we really want to do something about inflation—and if we really think there should be no kind of profiteering in war—what could be fairer?

RAIL EARNINGS . . . Persistent strength observed throughout the railroad list reflects the excellent earnings reports currently being released. New York Central, for example, shows net income of $2.58 per share for the first half of the year, as against $1.84 in the first half of 1941; Union Pacific, $5.55, compared with $1.70; Texas & Pacific, $5.38 per share, as against $1.79; Great Northern, $2.21 versus $1.27, and Southern Railway, $7.54 per share of common, as against $4.74 for the six months ended June 30, 1941. Class I railroads, as a whole, had estimated net income of $289,100,000 for the first half of this year, this being nearly 70% over the corresponding 1941 total.

Improvement in earnings is a sequel to materially higher traffic volume, more thoroughgoing loading of freight cars, economies in operation consequent upon rehabilitation of operating facilities during the past decade, and to the substantial expansion of passenger transportation as a result of the tremendous demands made upon the carriers for the movement of troops, as well as because of the curtailment in the use of private automobiles. The increase in freight and passenger rates granted earlier this year have likewise been an important contributory factor to enhanced income.

Strengthening of cash positions among the carriers is not only facilitating retirement of debt, but also encouraging wider distributions to holders of rail equity issues. Atchison, Topeka & Santa Fe, for instance, has already paid $3.50 per share of common, as against only $2 for the whole of 1941, and further distributions are probable later in the year, because of the sanguine earnings outlook. Union Pacific's payments will probably equal the $6 distribution of 1941, and continued favorable earnings prospects of New York Central may impel a modest disbursement on the capital stock before the end of 1942. Among the other transportation systems whose earnings outlook is so sanguine as to suggest dividends equalling 1941 payments may be included Pennsylvania Railroad, the Louisville & Nashville, while serious consideration may also be afforded distribution on the common by directors of Southern Pacific in the not distant future.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 422. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, August 3, 1942.

Market In Decisive Phase

Most stocks continue to "act well" in the face of gloomy war news and none too good earnings reports. We think the chances favor further recovery, though the July high may not be quickly surmounted.

BY A. T. MILLER

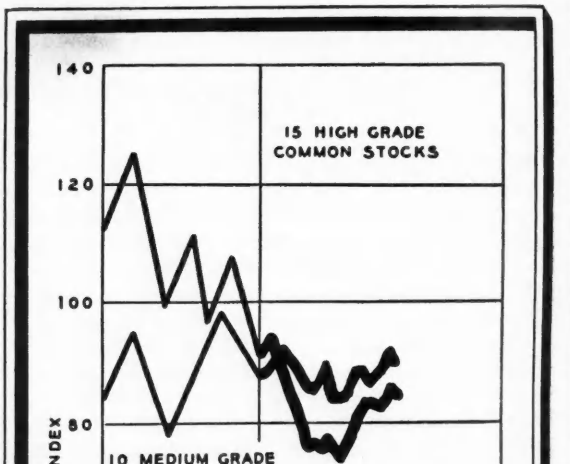
Summary of the Fortnight: After three successive weeks of net declines in the Dow industrial average, only 3 points had been shaved from the 16-point recovery scored since the end of April; while the rail average held within approximately ¼ of a point of its intermediate recovery high. Thus, undertone performance remained firm in the face of gloomy war news and quarterly reports showing many sharp declines in earning power.

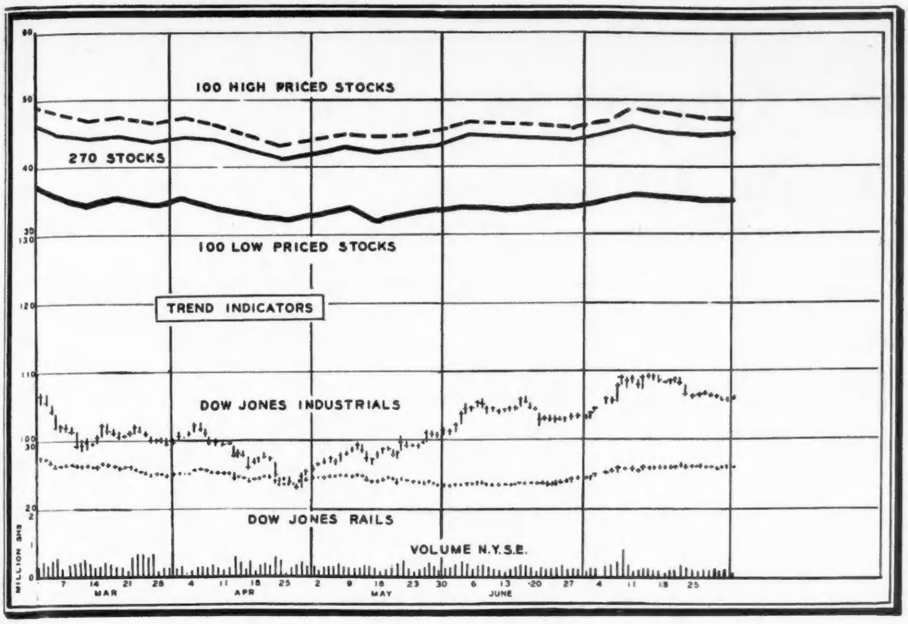
THREE months ago the kind of performance the market has given recently could validly have been regarded with misgiving and would certainly have put a heavy burden of proof on any analyst taking a bullish point of view. But after a 16-point recovery in the industrial average since the end of April, the modest, low-volume reaction of recent weeks gives every appearance of representing merely the usual technical set-back in a continuing upward intermediate trend; and thus is not alarming—except possibly to analysts who insist that the market was wrong in advancing at all and who therefore have a vested interest in the "further nose-dive" which so far remains elusive.

It is impossible to say with entire conviction that the April low represented the culmination of the entire major downtrend which really dates back to the spring of 1937. There is nothing in the technical evidence of the past three months which throws any light on that question one way or the other. Considering the background since 1937, or even since the rally high of November, 1940, the most bullish observers are constrained to view this recovery phase with reserve. Most reactions "start small" and under the existing circumstances each set-back raises an instant question as to whether the "intermediate" rise has ended.

The only answer we can give to this question is that so far the undertone evidence remains favorable. How long it will remain so, no one can forecast. Thus far, we still have an unbroken series of rising "tops and bottoms" since the low of April 28 in the industrial average. The most recent downturn, which has given substantial evidence of completion over the past several trading sessions, halted nearly 3 points above the lowest mark of reaction made in June in conjunction with the then existing fears of a German sweep through Egypt to Suez. The mid-July high topped the June high by a decisive margin.

Assuming, as now appears likely, that another minor, technical downturn has been completed, the next technical questionmark—and it may, of course, be decisive—is the market's ability to rise above that July high. Unless and until this test fails, for our part we are going to continue to take the hopeful view and give the market the benefit of any doubt. Obviously, any attempt to gear one's market expectations to the character of the current or forthcoming news is of most limited usefulness. We have had nothing that could really be called good news during these three months of recovery. The





present war news is not only much worse than it was when this recovery started, it is worse than when the lowest point of reaction was reached in June. Rommel is still virtually at his furthermost point of advance; and the Germans have pushed deep into the North Caucasus—but the market on balance is higher.

On the face of it, many of the second quarter earnings reports look pretty bleak. But what is the response of individual stocks? Westinghouse Electric, for example, showed only $2.10 earned for the first half-year, against $4.33 for the first half of last year. This shrinkage of 51 per cent was considerably larger than average among industrial companies, and it moved the company's directors to reduce the quarterly dividend from $1 to 75 cents. Yet last week's net decline in the stock was only 1 point, and at the lowest level reached following publication of the report the issue was still comfortably above its April low. U. S. Steel's response to a far from cheerful earnings report was a decline of 3/8 of a point net for last week. And so with numerous issues.

What is one to think of a market which so stubbornly ignores bad war news and bad earnings news? If the underlying position were weak, here is seemingly ample excuse for important decline. Yet our technical measures show no significant increase in over-all liquidating pressure—which amounts to saying that the recent moderate softness of the market has been due mainly to the cautious withdrawal of buyers. There can be only one answer, we think. It's this: the news of the war and the shrinkage in earning power is no worse than had been expected and allowed for.

There is more than a possibility that 1942 earning power will be somewhat better than the second quarter figures appear to indicate. For large-volume companies that are especially hard hit by the 90 per cent excess profits tax provision contained in the bill which passed the House, inclusion of a post-war refund—as favored by the Treasury—would make a considerable difference. True, it would make no direct difference in cash payments to the Treasury for the duration of the war but it would certainly result in scaling down or eliminating many of the heavy post-war contingency reserves which corporations are now charging to current earnings.

But even if we took the half-year figures as exactly indicative of full-year earning power, this would still not be, of itself, a valid argument for lower average stock prices. At the present time this publication's weekly index of 270 stocks—a certainly representative cross-section of the market—is a trifle under *the lowest level of* 1934, *despite the recovery of the past three months.* On an earnings basis, it may be said that the market has discounted a shrinkage to 1934 profits, as is more fully discussed in the special article beginnng on page 437. We figure that at the very worst, aggregate corporate earnings this year will be considerably more than double those of 1934.

Like the market as a whole, individual stocks respond more readily to any kind of good news than to bad. Thus, as we said above, drab earnings reports do only slight damage to prices, but the minority of instances of relatively good earnings reports bring quick response from buyers. Aside from the various strong rails, current examples of "special situation" strength include Loew's and the other motion picture stocks, Schenley, the air transport stocks, Bendix, Celanese, Chrysler, General Precision Equipment, General Railway Signal, Seaboard Oil and United States Gypsum.

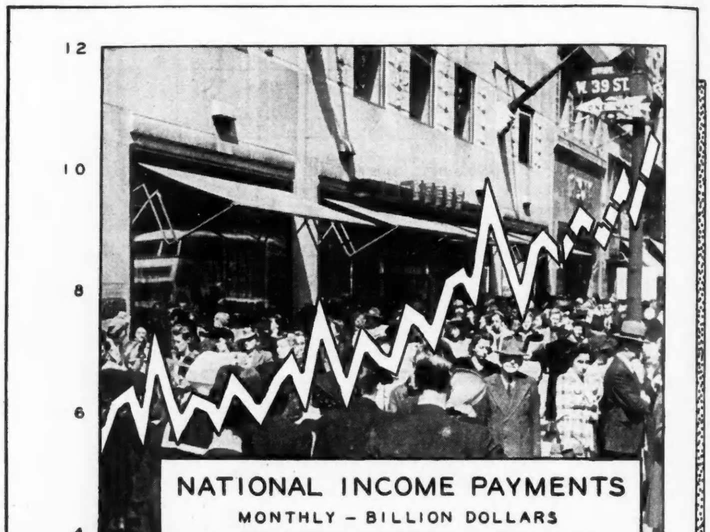
Last year's intermediate recovery topped out at about this time, after a net rise a trifle smaller in points than the maximum we have had since April 28. On a percentage basis, the rise of approximately 16 points up to July 16 was considerably larger than the 1941 spring-summer rally. In 1940, the intermediate recovery took off from the exceptionally powerful technical springboard which had been set up by the 40-point nose-dive in the industrial average in a very few weeks prior to early June, following the surprise shock of the German sweep through the Low Countries and France. That recovery phase extended to early November—thus lasting some five months and carrying the industrial average up about 26 points or about 25 per cent. The maximum recovery to date on the present movement has been about 17 per cent.

Little or no guidance can be had from these precedents or from past "seasonal habits" of the market. There has been more or less of a "summer rise" in the majority of past years—even (*Please turn to page* 466)

Gauging the Impact of The Inevitable Inflation

How Far Can It Go This Fall and Winter?

BY WARD GATES



Gendreau

In the forepart of this year there was rising agitation and debate on the subject of inflation, in and out of Washington—at a time when the cost of living was moving up from month to month and the stores were thronged with unprecedented numbers of buyers.

Over the past three months or so, since retail price ceilings were imposed, the cost of living has flattened out, there has been hardly a wiggle in the broad index of wholesale prices and consumer patronage at the stores has dropped back to levels that look quite normal—yet we see even greater inflation dangers than before being emphasized by the President, by OPA Administrator Henderson, by the Chairman of the Senate Finance Committee, by newspaper editorial writers and by responsible economists.

This paradox between *currently* stabilized prices and mounting fear of inflation is more apparent than real. The official price ceilings have provided stability in the same way that an opiate provides relief from pain. The opiate does not cure the disease that caused the pain. Neither can price ceilings by themselves more than temporarily relieve the ravages of the disease of inflation.

The Administration knows that the present stability in the cost of living is deceptive and unreliable, that at best the "honeymoon period" for price ceilings can only last a very few more months, and that the strongest upward pressures on the price level are still to be encountered—which is why the President and his advisors at this writing are conferring on imminent executive moves aimed at bringing the *causes* of inflation, rather than merely the symptoms, under more adequate control.

What the President will do can not be forecast; but it is obvious that the focal points of recent and current discussion are wages and farm prices. These two factors constitute an important part of the inflation problem but by no means the whole sum and substance of it.

As regards wages and farm prices, it seems doubtful whether the Administration can and will succeed in imposing adequate control, without supporting action by Congress. As for a fully-rounded anti-inflation program —which would require consumption-reducing taxes and/or a compulsory war-bond savings plan—this could be made effective only by Congressional action; and Congress will not even begin to come to grips with it until some time after the November elections at the earliest. This means that, at best, the necessary legislation could hardly "go through the works" until well into the coming winter and more probably next spring. In the meanwhile the unpredictable course of the war would have, naturally, conditioned the mood and resolution of Congress. At that time, regardless of the prevailing realities of our war economy, circumstances suggesting a relatively short war, or the contrary, would necessarily affect political decisions.

What it boils down to is this:

Before the necessary full inflation-control program is

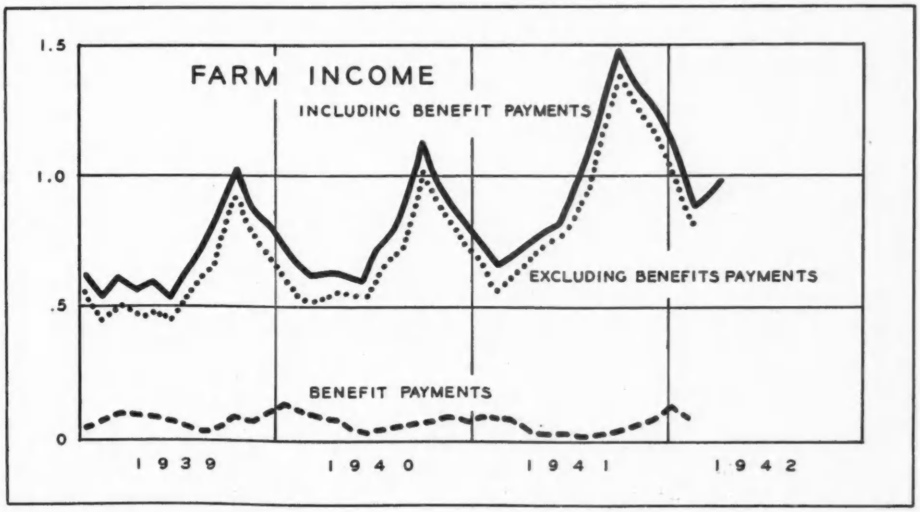
adopted, the pressure of the underlying inflationary forces will greatly increase, many price ceilings will break down unless they are officially lifted and something of a crisis —though neither necessarily nor probably disastrous— will be reached. Before winter the cost of living, as measured by the official indexes, will almost certainly rise at least a further 5 per cent. The real rise will be substantially greater than this because part of the coming decline in our standard of living will be represented in the lowered quality, as well as reduced quantity, of consumer goods. Lowered quality of goods can not be mirrored in the price indexes, nor is it probable that any future Federal controls can deal with this kind of economic adjustment to inflexible price ceilings with anything like full effectiveness.

Here Is One Squeeze

The simple example of current meat shortages in various localities illustrates the absurdity of the present partial, lop-sided anti-inflation program. There are retail price ceilings on pork but no ceilings on live hogs. The cost of live hogs has risen to a point at which sale of the slaughtered meat at ceiling prices would involve actual loss for the packers. Meat is sold by the pound. The packers can neither adjust this measure, nor lower the quality of their products. Hence trade in pork— except as serviced out of previous lower-cost inventories —must come to a halt until the price of hogs is lowered or the price of pork products is raised.

The principles involved in this example are elementary economics that even a school child should be able to grasp—but they have been, and continue to be, ignored by the political farm bloc in Congress, and by the labor union chieftains who continue to fight for wage increases and who persist in the absurd illusion that their followers can escape a decline in living standards.

In the case of manufactured goods the relationship of rising wages to costs, profits, prices and production is much more complex than the example of hog prices versus pork prices cited above. Wage rates are not the same thing as unit wage costs. Improving techniques of production, resulting in increased physical output per worker per hour, act to reduce unit labor cost. Over an extended period this makes it possible for the more flexible enterprises to pay higher wage rates without raising prices and without undue reaction on operating profits. But unit wage costs vary greatly from industry to industry and from company to company. Also the ratio of labor cost to total operating cost varies largely among different types of manufactures — probably averaging, roughly, 25 per cent for industry in the aggregate. One enterprise could "absorb" a 5 per cent wage increase at a given time but not a 10 per cent increase. Another could "absorb" neither. Hence there is no real economic basis for a rigid, national wage formula.



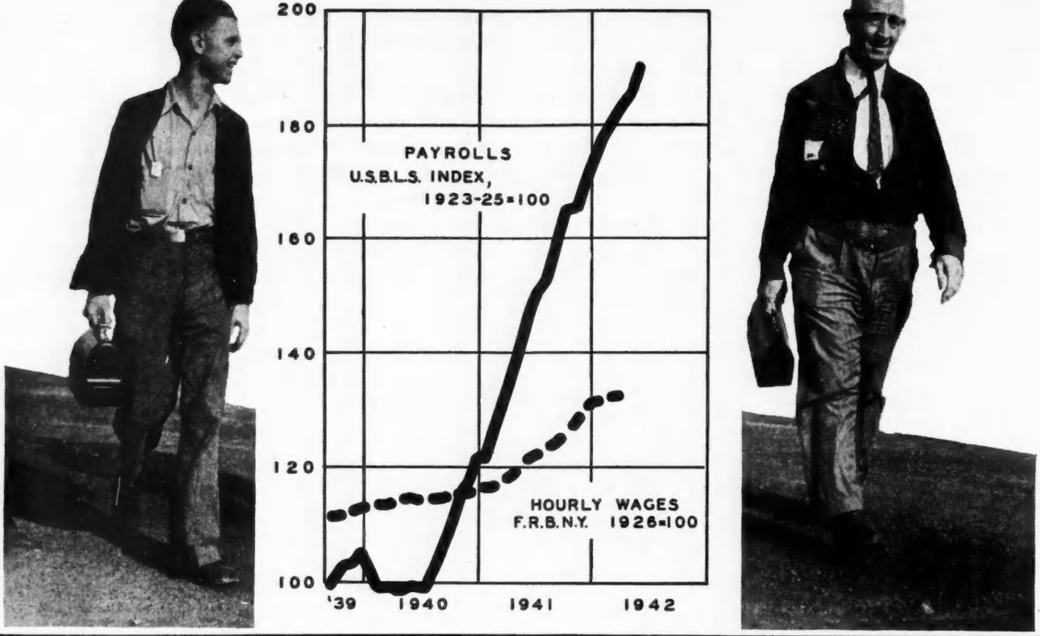
There can be little doubt that industrial wages have been, and continue to be, raised more in the aggregate than can be offset by increased producing efficiency. Partial proof of this is supplied by the fact that the income statements of manufacturing corporations for the first half of this year show a decline in earnings before taxes, as compared with a year ago, as well as the larger decline in net profit due to higher taxes.

In the case of the war industries, the bulk of any increase in wage costs is borne by the Government in the form of lower income tax revenues than it would otherwise collect from the manufacturer. This is inflationary in its relation to the Federal deficit, as well as to the increased purchasing power put in the hands of the workers. If the net effect of high taxes and increased labor costs is to reduce net profit below a reasonable "incentive point," the economic inducement to manufacturers to produce as efficiently as possible is greatly weakened—and we would thus get both less and more expensive (to the Government) war production than would otherwise be the case. Adjustment in the form of lowered quality is not open to these producers.

Position of Consumer Goods Producers

In the case of consumer goods producers, squeezed between ceiling prices and rising costs, a majority do not have "excess profits" and hence higher wages cost reacts more greatly upon profit and less upon tax liability. If profit threatens to reach the vanishing point the most feasible and certain adjustment—unless price ceilings are raised—is to give the consumer less for his dollar by shaving something out of the quality of the item. Getting less for your dollar is inflation. This is one aspect of it.

Under wartime conditions, what is "justice" for the workers? As seen by the professional union leaders, it is "all that the traffic will bear." They cite the rise in



Galloway

the cost of living as justifying and necessitating higher wages, but never do they limit their demands in ratio to any specific rise in the cost of living over any specific period. As seen by the War Labor Board, "justice" for the worker is a money wage equal to that of January, 1941, plus 15 per cent more for the increase in loving costs since that time. Obviously, the openly-advocated program of the unions is inflationary. Obviously, the formula of the Labor Board is inflationary as far as it goes. Carried to its logical conclusion, it would result in adding substantially to the already swollen stream of consumer purchasing power—and it is very dubious that this formula of itself can produce lasting stabilization either of wages or the cost of living. Suppose, as we have previously forecast, that the workers' cost of living rises another 5 per cent by the first of 1943. Then presumably the Board's formula of wage justice, would become the wage of January, 1941, plus 20 per cent. And so it would go. In short, the Board—like the rest of the Government—has a spiral by the tail and none too firmly. Its "solution" is not really a workable formula but merely an expedient. The expedient will not stop inflation. On the contrary, inflation will in time wreck the expedient.

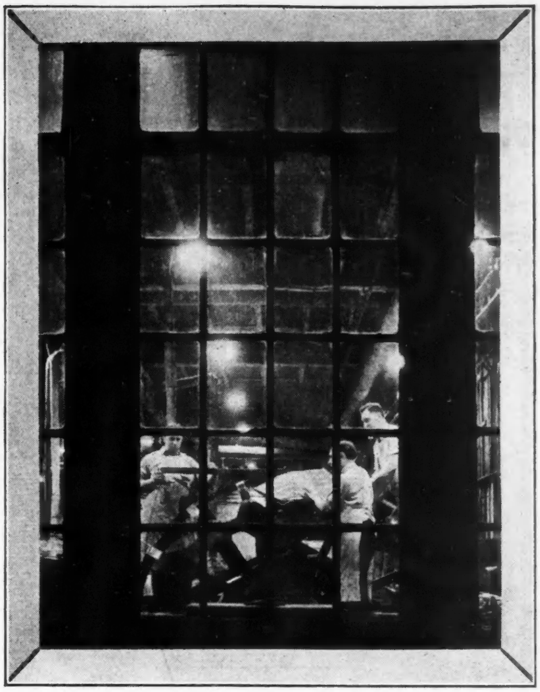
The President and Mr. Henderson—as well as all who have any real grasp of the economic realities involved—see wartime wage justice for the workers in an entirely different light. They know that justice for the workers—as for all the people—can only consist of restricting inflation to the smallest possible minimum. They know that, regardless of how much money there may be in the workers' pockets, their living standard must decline for the simple reason that the supply of consumer goods is going to be greatly reduced. They know that the more the supply of consumer goods is decreased, and the more the supply of money income of consumers is increased, the greater will be the inflation.

There is no mystery about it. The problem in essence is very simple. A dictator like Hitler or Stalin could solve it virtually overnight. The difficulties that thwart solution and make for inadequate, piecemeal attack are entirely political and are perhaps inherent in one democratic system. They make it impossible completely to prevent a war-time inflation—but they don't preclude *limiting* the inflation, in step by step action, before too vital damage is wrought. Assuming that adequate controls will have been adopted by next spring—which seems a not unreasonable expectation—will the sky be the limit for prices meanwhile? Not at all. Suppose over the fairly extensive interim the cost of living rises another 10 per cent—or even, as is improbable, an additional 15 per cent or by as much as it has risen over the past eighteen months—the total rise then would still be very much less than the rise during the World War and early post-war years. Indeed, on this somewhat pessimistic assumption, it would be only about a third as much as the rise of 1915-1919.

No Run-Away Rise

Despite the unrealism of our tax policy, despite the kiting wages of labor, and despite the major rise in farm and food prices, the total increase in the statistical measure of our cost of living to date has been about 15 per cent, as compared with nearly 29 per cent over the comparable time period in World War I. This is not an argument for complacency. It is cited merely for rational perspective on the problem, and on its probable dangers as regards the next six to twelve months—assuming that within such time our politicians can bring themselves to fall in step with the majority public opinion which is demanding that, whatever the exact measures, inflation be brought to heel.

In June of 1941 the (*Please turn to page* 462)



War Remaking Industrial America

PART I—Soaring War Production Versus Dwindling Civilian Output

BY L. O. HOOPER

To date, America's war program involves the expenditure of about $205 billions. That is seven times the cost of the first World War to us and it exceeds the total estimated wealth of the United States in farms, factories and industrial equipment.

The armament production of the factories of the United States amounted to $150 million in June, 1940, the month France fell. By June, 1941, war production had increased to $800 million, by December to $1,800 million and by May of this year to $3,500 million. According to one competent source, the total for 1942 may reach as much as $58 billion, which would be almost half as much again as was anticipated six months ago.

But this is not the whole story. We are scheduled to increase our total expenditure for war in 1943 to $80 billion, or a sum greater than the total annual income of all the people of the United States in most of the years immediately preceding World War II. In other words, the war effort is to take a vastly larger amount of raw materials in 1943 than in 1942. Not only that, but will take perhaps 12 million more workers from the industries which produced consumable goods in 1941 and transplant them into the industries which produce war supplies and war machines to support the armed forces.

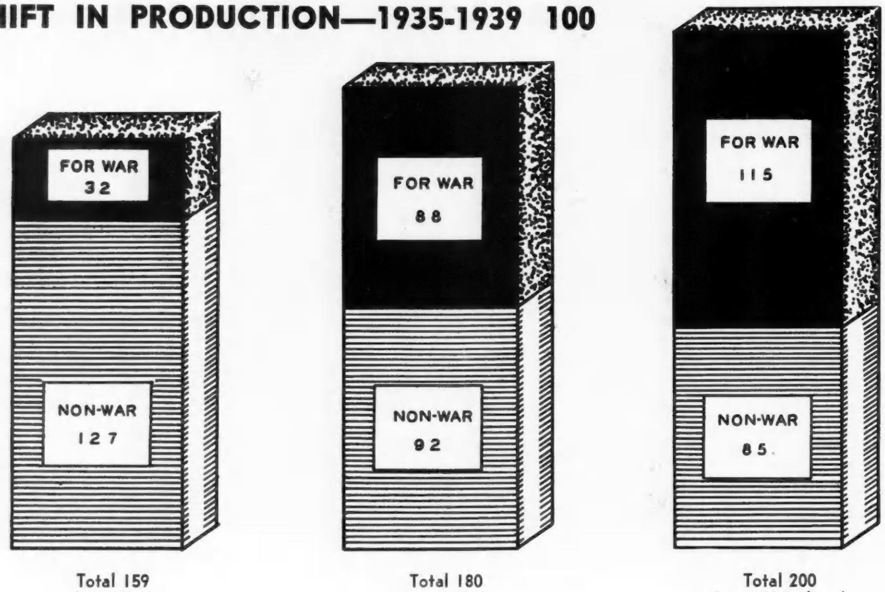
Before the war began, there was a surplus of labor, a surplus of materials and at least adequate inventories of all types of manufactured goods were being maintained. There were no shortages. The national problem was distribution, not production.

The first thing the war did was to absorb surplus productive capacity, without changing civilian life to any appreciable extent. These were the days of "guns and butter." It was complacently assumed that America's productive capacity was so great that we could maintain our high standard of living and at the same time be the arsenal of the democracies without American armed participation.

Pearl Harbor ended the forlorn hope that American blood would not be spilled. It has taken some months, however, for the people of the United States to realize that the guns will have to be greased with butter.

For months after Hitler's invasion of Poland, our production of civilian consumable goods (food, clothing,

SHIFT IN PRODUCTION—1935-1939 100



Total 159
June, 1941

Total 180
June, 1942

Total 200
June, 1943 (est.)

automobiles, housing and the like) increased as fast or faster than our output of war materials and supplies. In the middle six months of 1941 we were accumulating inventories of consumption goods and of durable consumption goods. Automobile producers "warehoused" cars; Macy's accepted delivery of its 1942 supply of electric refrigerators; tire dealers built up their rubber supply; men and women bought more clothes than they needed; the population hoarded sugar. Department stores enjoyed a record sales volume, and the business done by Sears, Roebuck & Co. in 1941 for the first time in history approached a billion dollars.

With Pearl Harbor we ceased to accumulate inventories, and began to work them off. To be sure deliveries of consumable goods to ultimate purchasers (automobiles, electrical devices and tires excluded) were larger in the first half of 1942 than in the first half of 1941, but here and there shortages began to appear. America at last was drawing on its inventories in spite of the concern expressed as late as May by some merchandising executives at the size of the inventories of retailers.

War Production Board orders and directives, and diversion of plants and labor to the war effort, already have closed many of the usual avenues of civilian spending. The prosperous war industry family today cannot buy a new car, a new electric refrigerator, take an automobile vacation of any distance or conveniently buy any large amount of such things as gasoline, sugar, silk stockings, spices, coffee, tea, cocoa, musical instruments or imported luxuries.

Buying through installment contracts is shrinking rapidly because the things usually bought through the help of this system are not available. Perhaps even more important, the installment paper outstanding for goods purchased last year and in preceding years is being rapidly paid off. There is a much smaller cash drain to the finance companies in all parts of the country.

Many of the shortages already visible have resulted from enemy conquest of the countries where the commodities are produced. Shortages of such origin have appeared in rubber, tin, certain spices, French wines, silks and quality cosmetics. A shortage of ocean shipping, caused partly by submarine depredations and partly by the enormous shipping requirements involved in making America the arsenal of the democracies, as well as maintaining American armed forces on far flung fronts, has cut the civilian supply of such water-borne commodities as sugar, bananas, coffee, cocoa, wool, lead, asphalt and (on the Eastern seaboard), gasoline.

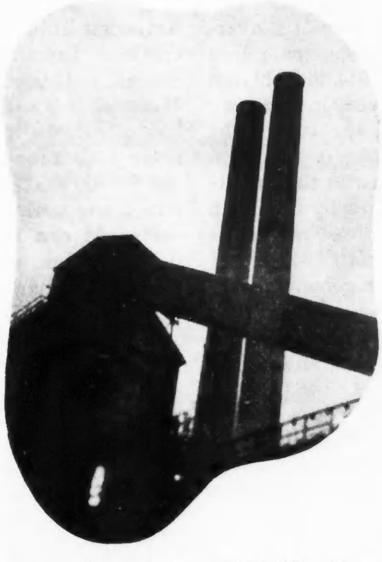
Further Consumer Rationing Inevitable

We have not yet felt the effects of the diversion of productive facilities away from automobiles because (1) we were near the end of an automobile production cycle when the storm broke, (2) automobiles are wearing out slowly because the shortage of tires and gasoline results in more limited mileages, and (3) the strata of population now most properous (mechanics) usually buy used cars rather than new ones.

New defense centers are feeling a chronic shortage of housing facilities which will be aggravated in the East by the more drastic gasoline rationing now being put in force. Until recently, also, the building industry has been entitled to fairly high priorities, especially in defense areas.

As time goes on, more things will be rationed, and more shortages will develop. More stores will find their supplies of radios, vacuum cleaners, stoves, refrigerators, washing machines and oil burners exhausted. From time to time there will be shortages in meat, coffee, tea, women's nylon hosiery, plumbing supplies, carbon paper, and certain types of woolen fabrics.

The country's purchasing power in dollars probably is increasing faster than at any time in its long history. Our national income (national income paid out) in 1942 may reach $115 billion to $120 billion. Assuming it is $117 billion and assuming that taxes and voluntary savings will absorb about $31 billion, this will leave about $86 billion available for the purchase of consumption goods and services. A leading engineering firm figures that at present prices the new supply of consumable goods available will be only about $69 billion. This means that without any additional increase in prices, in taxes, or in savings beyond what is now in sight, demand can exceed production by about $17 billion. This year, part of the $17 billion inflation gap will be closed by drawing on inventories of goods manufactured in previous years and by the repayment of loans which bought consumers' durable goods in 1940 and in 1941. Next year, however, this inflation gap will be open wide unless payroll taxes are very much higher than now contemplated.



The most dangerous part of the problem surrounding this inflationary gap concerns the fact that wages and salaries, which constituted only about 63.4% of total income payments in a year as good as 1937, averaged 69.6% of total income payments in the first five months of this year and amounted to 72.2% in the month of May. All but a negligible part of these wages and salaries are coming to families which have incomes of less than $5,000 a year. As everyone knows, families with incomes of $5,000 a year or less ordinarily are not big savers. The so-called "savings group" takes in the income strata from about $5,000 up. In other words, that part of the population which is receiving large wages for producing war materials and war equipment, is likely to want to spend most of the money it receives.

One economic service in a recent analysis estimated that consumers who earn up to $5,000 a year ordinarily account for about 81% of total consumption, and this year will have a total income of about $75 billion against $65 billion in 1941.

The outlook for things to buy is discernible in broad, but perhaps rather dim outline. There will be plenty of food, although sometimes the variety available in the markets may not be as broad as that to which Mrs. America has been accustomed. There will be plenty of soap to keep our mechanics clean, since soap is a by-product of glycerine, an essential war material. There will be enough tobacco; and unless the war lasts more than three or four years, enough aged whiskey. There is no shortage of paper, or of potatoes, or of cotton, or shoes. There will be enough cheap cosmetics and cheap jewelry, and an adequate supply of most drugs. Vacation trips will be difficult, street cars, busses and trains are sure to be crowded and travel by ticket may be rationed.

Victory models of small bicycles, stoves and standard types of furniture are scheduled to appear, but they will provide little individuality and there will be little to choose from when purchases are made. We will not buy a Magic Chef stove or a Kalamazoo Stove, but simply a stove. We will not buy an Iver Johnson bicycle, or a Ranger bicycle, but just a bicycle. There will be enough shoes, but they will not be designed in so many styles. There will be enough suits of clothing for men but the styles will be different and uniform, and the fabrics usually will not be all wool. Women will be able to keep their legs warm, but not with silk and perhaps not with nylon. If Junior wants a musical instrument he will probably have to buy it at a second-hand store or from a neighbor. The "new" radios will be used or rebuilt. In short, the quality and variety of the things the wage earner spends money for, will reflect a decreasing standard of living with which rising wages (if wages rise) cannot keep pace.

The answer to shortages is not higher prices unless higher prices in themselves stimulate the manufacture and production of the goods affected. In a regulated economy, like Mr. Henderson has in mind, the government constantly is at war with the law of supply and demand. In this war it has to fight a battle against rising wages, deal with snipers in the "black markets" and beware of an ambush of rash and indiscreet public opinion.

There is no answer to war-time shortages except a lower standard of living. No economy indefinitely can consume more than it produces, especially if imports are almost completely cut off.

Just recently some of the department stores in the larger cities have been advertising a cosmetic preparation to replace women's stockings, called "liquid stockings." It looked like a moneymaker and seemed to be catching on until the War Production Board issued Order L-181 which regulates the use of such cosmetic raw materials as alcohol, glycerine, zinc and titanium oxide. Production Order L-181 contained a provision whereby essential raw materials of cosmetic manufacture could not be obtained for any product which was not manufactured last year. This completely shuts off the supply of raw materials for liquid stockings unless those raw materials are obtained in the "black markets." What courage, the War Production Board!

There are enough wood, glass, cement, gypsum, paper, salt, coal, gasoline and staple food products for everyone, but temporary shortages easily may be occasioned by lack of transportation, freight priorities, freight embargos and government regulations.

The American people are ingenious. They are always thinking of new things. They will develop many substitutes. The quest for synthetic rubber is dramatized by the fact that rubber is an imperative in the American way of life, but there are other quests for synthetics and ersatzes going on in many industries. Some of these quests will develop new (*Please turn to page* 461)

✓ Range of 30 Industrials in the Four Major Movements of the Past Fourteen Years

X-Ray of The Dow-Jones Industrial Average

BY FREDERICK K. DODGE

A LONG-RANGE study of the Dow-Jones industrial average might lead to the conclusion that one main bull market, with interruptions, lasted from 1914 to 1929 and one main bear market, with rallies, is still in progress. Be that as it may, the 1929 highs and the 1937 highs were roughly as 2 to 1, and a 50% recovery is usual in a bear market. A glance at the table indicates that whatever the 1929-1942 fluctuations may eventually be called, they have had four distinct phases,—the violent decline from 1929 to 1932, the recovery lasting into 1936-7, and several intermediate movements, but with generally brief recoveries and longer periods of decline since 1937. The 1938 low in the Dow-Jones industrial average, which is not shown in the table, was just under 100, and as the 1942 low did not go a full 10 per cent below that, so possibly the recent low in these averages is a double bottom in the long-range movement. It is not the intention of this study, however, to go into the "conjurings and metaphysics" of chart reading. It is to point out what had occurred in the past four main swings in the stocks in the industrial averages, and to attempt to draw some conclusion.

Even with the market at its worst stages in 1932, as compared with 1929, some of these "blue chip" stocks "maintained their dignity," in the sense that they did not go to lows that were absurdly beneath the intrinsic worth of the stocks, as based on net current assets per share, and average earning power, and dividends over a period of years. Declines in 1932 in American Smelting, Bethlehem Steel, Chrysler, General Motors, Harvester, Nickel, Johns-Manville, Texas Co., Carbide and Westinghouse went to points where many were selling much below their net current assets per share and below their average annual per share earnings of the previous ten years. Nothing equalling these figures has been seen in the latest period of market weakness, which has represented the preparation for the war and the recent depressing combination of record-high taxes, a war "for survival" and a most confused vista of what industry will be like when the war is over.

A few stocks have approached the 1932 lows in 1938 or in the past few months, among these thirty which make up the Dow-Jones industrial average list. Two have sold at lower levels than in that year. These two are American Tobacco "B" and Woolworth. The great increase in taxes has been cutting down the earnings of American Tobacco and caused a declining dividend rate. Woolworth is suffering from rising costs of business, the loss of income from some foreign subsidiaries and also from high taxes. Neither of these companies has a nearby means of going into new enterprises or doing direct war work on a large scale, to offset current conditions. It can be said, therefore, that while the 1932 declines were without good reason in the extremes reached in many stocks, there has been a reasonable premise in some of the recent price levels. It might be said, "too d . . . reasonable."

While the earnings and business of Chrysler were excellent in the 1929 period, the stock at that time had not completed the reabsorption of the great increase in

Cushing

outstanding stock resulting from the merger with Dodge Brothers Motor Car Co. As a result, Chrysler did not get so high, relatively, as many others that year. This large floating supply, also, was one of the reasons for the unreasonably low price of 5 which was seen in 1932. With the gradual absorbing of this floating supply, Chrysler made a higher figure in 1937 than it had in 1929 and it has acted well in the current year as a result of its now widely-recognized intrinsic worth. International Nickel is another one of this group which sold at a higher level in the 1936-7 market than in 1929, representing the great increase in its business in the past ten years over the preceding ten. A third one of these thirty which went above the 1929 high in the markets of five or six years ago is Loew's, Inc. This represented the great increase in this company's business and earnings, and the fact, also, that it weathered the depression without a sign or a hint of the structural difficulties which so many others in the moving picture industry met.

The Hills and the Valleys

Relating to Prices for the Stocks Now Used in the Dow-Jones Industrial Averages

Name of Stock	1929 High	1932 Low	High 1935-7	Low 1938-42	High 1942(a)
Allied Chemical & Dye	354¾	42½	258½	118½	149
American Can	184½	29⅝	149⅝	55¼	70½
American Smelting & Refining	130¼	5⅛	105¾	28⅛	43
American Telephone & Telegraph	310¼	69¾	190½	101¼	134¾
American Tobacco "B"	116¼‡	40½	104¼	33½	50¾
Bethlehem Steel	140¾	7¼	105½	39¾	66⅞
Chrysler	135	5	138¾	35⅜	63⅞
Corn Products Refining	126⅜	24¾	90⅝	40¼	55¾
E. I. du Pont de Nemours	231	22	189¼	102¾	144
Eastman Kodak	264¾	35¼	198	108	141
General Electric	100¾	8½	64⅞	21½	28⅜
General Foods	77⅞	19⅝	49⅜	23¾	40½
General Motors	91¾	7⅝	77	28⅝	39⅞
Goodyear Tire & Rubber	154½	5½	47½(b)	10	18¾
International Harvester	142	10⅜	120	38	52
International Nickel	72¾	3½	73⅜	19⅜	28¾
Johns-Manville	242¾	10	155	44	62½
Loew's	84½	13¼	87⅞	20½	45½
National Distillers Products	19¼‡	4⅜	41⅝(c)	16(d)	23⅝
National Steel	60	13½	99¼	42	53½
Procter & Gamble	98	19⅝(e)	71¾(f)	42	52
Sears, Roebuck	181	9⅞	101½	43½	57
Standard Oil of California	81⅞	15⅛	50	16¼	22⅞
Standard Oil of New Jersey	83	19⅞	76	29⅞	42¼
Texas Co.	71⅞	9¼	65⅛	30	39¼
Union Carbide & Carbon	140	15½	111	57	74¾
United Aircraft	162(g)	6½(g)	53⅜	25⅝	36⅜
United States Steel	261¾	21¼	126½	38	55¾
Westinghouse Electric & Manufacturing	292⅝	15⅝	167⅝	63⅛	81¼
F. W. Woolworth	103⅞	22	71	21½	29⅛
Dow-Jones Closing Industrial Averages	381.17	41.22	194.40	92.92	114.22

‡—Representing the present stock, after split-up. (a)—To August 1. In various cases the 1938-42 lows were established in 1942 AFTER the high price of this year to date had been made. (b)—This low was established in 1934. (c)—This high was made in 1933. (d)—This low was made in 1934. (e)—This low was made in 1933. (f)—This high was made in 1940. (g)—Stock of the predecessor company.

National Distillers Products price movements have placed this stock in a class by itself. Thus, it did not accomplish much, in the matter of high prices, in the 1929 market. It was during Prohibition, and this business had not prospered since 1918. With the first moves to end Prohibition, this and the other liquor stocks "sky-rocketed" in the Spring of 1933, and Distillers went not only above the 1929 price, but to more than double it. Then, the profit-taking followed, and this stock made its lowest level since 1933 during 1934.

The cumulative table gives the 1929 high and the 1932 low of United Aircraft & Transport. From that company, in a dissolution forced by the government in 1934, was taken several of its manufacturing subsidiaries and its air lines, and the remaining business was continued by the present company, the United Aircraft Corporation. It would be interesting to figure out the present value of all of the equities which belonged to the predecessor company, whose common stock sold at a low of 6½ in 1932. All of the equities, today, are selling for more than is represented in the 1929 high for the predecessor stock at 162.

The ups and the downs have corresponded to a large degree with the changes in the business cycle through these years. In fact, as any student of the averages can attest, the main movements in stock prices have anticipated and forecast the changes in the business cycle. From President Roosevelt down to the village grocer, it was said ten years ago that "the stock market crash caused the depression." It did not. The stock market merely forecast it. Business was pretty good in 1936 to the end of 1937; the stock market rise to March, 1937, forecast this business improvement. The averages declined violently in the last three months of 1937, forecasting the slump in business in 1938, and before that slump had ended, the market had rallied materially to forecast the better business of 1939-1940. Long before the tax bills were before Congress the stock market had declined, partly due to war reverses, but mostly to forecasting taxes. In fact, the uncertainty with regard to the extent of the new levies on corporate income, notwithstanding the substantial rise in such income before Federal taxes, has been the principal cause of much of the recent market unsettlement.

So, where are we now? The averages have recovered more than 10 per cent at recent highs from the 1942 lows of 92.92 in the industrials. Does this betoken a new recovery such as has been seen in brief, sharp gains several times since 1938?

There is no answer apparent after intense study of charts and pondering on the Dow Theory of the averages. The last high point since 1937 in these averages was just under 160, and that high point had been reached less than seven months after the average had gone under 100. The 1939 high failed by a small margin to equal the 1938 high; the 1940 high failed by a wider margin to get as high as in 1939, and the same applies to the 1941 high and the 1942. There are, thus, declining tops in the five-year range of these averages. Until one of these tops has been passed, there can be no technical indication that another major recovery or a new bull market has started.

Happening in Washington

Charles Phelps Cushing Photo

BY E. K. T.

Wage freezing isn't in the works, won't be for a long time. The President and his henchmen prefer the so-called stabilization process. That means you'll see wage levels inch up. Living costs will inch up, too, through either official or unofficial puncturing of price ceilings. Don't get the impression this means runaway inflation. It doesn't. It does mean a gradual crawl up the inflation spiral, not generally alarming but potentially dangerous. Even tough talking Leon Henderson is unwilling to take on the job of freezing wages.

Washington Sees:

The U. S. War machine is heading into mire, is slowing down, even stopping in spots. The factories have been erected, are ready to chew up huge quantities of raw materials into tanks and planes and boats and guns—but raw material supplies are too skimpy.

That's because of disjointed planning. Time has come for planners to unify their endeavors, shift over from peace basis to war basis in industry, or get out of Washington. That's to be painful.

W P B has been overly generous in dispensing raw materials to civilian industry. The Army itself has wasted critical materials such as copper and iron and steel.

This must end. The Government must take a firm hold on the flow of materials, synchronize planning, place military needs first, concentrate civilian production, allow non-essential industries to wilt away, restrict critical items to essential war weapons. In short, the Government must become realistic rather than visionary, brutal instead of charitable, grim instead of hopeful—honest instead of political.

Business and industry can justifiably hope for early simplification of some Government questionnaires. War Production Board, Army, Navy, and Maritime Commission are working harmoniously—and zealously—on this problem. It's reasonable to feel their labors will result in fewer and simpler demands on private enterprise for reports to Washington.

Tax bill can't be reported to the Senate for consideration by September 1. That's the goal set up by Finance Committee Chairman George. It will be moved forward. The committee will be fortunate if it gets the bill out by mid-September.

National service bill has been drafted, will likely be enacted before Christmas. It will permit the War Manpower Commission to place workers in essential labor, to freeze them there.

Synthetic rubber situation has become so smelly the President is afraid of a scandal, wants to head it off with a reputable arbiter. Real cause for delay and disruption is a control fight between petroleum companies and the alcohol industry. Small outfits capable of immediately producing a substantial aggregate of rubber are caught in the squeeze, are brushed off here by bigshots representing petroleum or alcohol. An explosion is inevitable unless the White House intercedes promptly. Impatient Congress wants rubber, doesn't care about the cost, is demanding it be processed from both petroleum and alcohol, and is prepared to enforce that ultimatum without more delay.

Home heating oil is to be rationed in the eastern shortage states, but not in other sections, this winter. That means a howl from Atlantic coast congressmen. Fact is, legislators elsewhere also fear this trend toward sectional rationing. There's an undercurrent of congressional apprehension that if we tolerate this sort of thing now, rationing may be ultimately invoked to "punish" specific areas incurring Washington displeasure for one reason or another.

Senate Finance Committee plan for revamping the tax bill hasn't jelled yet, but the committee definitely (1) won't require joint returns by married couples, (2) won't eliminate oil well depletion allowance, (3) won't tax securities issued by state and local governments.

General sales tax right now seems to be losing popularity within the Finance Committee. There's a majority against it. That might change as committee members probe deeper into the revenue problem.

Britain is financing the war on a more realistic basic than the United States. The United Kingdom expects to raise by taxation 53% of total expenditures during the current fiscal year. We expect to spend 77 billion dollars. Revision of the tax law as contemplated by the House would bring in an estimated 20 billions. That means we would be financing only about 26 per cent of our total outlay through taxation. To duplicate the British record, we would have to collect around 40 billions in taxes.

WPB and the Army are still dueling for control of raw materials. Donald Nelson's recent WPB reorganization by no means headed off the military men. The WPB chief is in the saddle but his perch is precarious. Unseating of Nelson by the Generals would mean more industrial conversion — greater shrinkage in consumer goods — a bigger Army quicker. It's best to remember it could happen that way.

Smaller War Plants Corporation is telling little fellows it wasn't created primarily to bail out distressed industry but to expedite war production. That makes it plain as the nose on your face small plants won't be helped unless they can help win the war.

You may lose your typewriter unless it's officially busy. WPB efforts to buy 600,000 machines from industry and the public are flopping. Requisitioning may follow. Plain fact is that some of Donald Nelson's tough fellows have already drafted a letter warning typewriter owners to sell voluntarily or face Government conscription. Nelson has been persuaded to sit on this temporarily but may have to use it before long.

Get set for rationing of at least a dozen more articles of everyday life. This will come by late summer or early fall. There'll be no advance notice. Price Administrator Henderson is carefully guarding the new list to prevent hoarding.

New draft regulations are an improvement over the old system but still far from equitable. Local boards retain too much unbridled discretion. That means there will be no fixed, rigid standards applicable alike to all. Men in identical positions — with the same number of dependents and income — may be called up by one board, deferred by another. And this becomes apparent, pressure on Congress for a non-elastic yardstick will be renewed. But don't count too strongly on your correction action. After elections there's likely to be more war grimness and less ballot genuflecting in Washington.

Medicine industry faces few war curbs, WPB has decided there's no necessity for drastic curtailment orders in this field. Raw material supply situation is good. Even satisfactory containers are assured.

OPA will shortly launch a tire buying campaign. You'll be asked to sell your spares. If the response is satisfactory, requisitioning will be indefinitely postponed.

Secretary of State Hull has lost none of his resolve to smash tariff protection. The war scuttled his reciprocal trade program. But Hull remains a visionary free trader determined to open wealthy American markets to goods fabricated abroad with cheap or indentured labor. He's now laying the foundation through lend-lease agreements. First real evidence will crop up in dickerings with Latin American nations. Hull now holds all the aces, because lend-lease agreements don't require Senate ratification. But Congress won't bow without a fight, and Democratic politicians are plenty worried by the inevitable blowup when Hull finally comes out into the open.

Here's why some people are confused. A reputable manufacturer came down from Connecticut with a plea that WPB advance his fourth quarter alcohol allotment for use in the third quarter. He wanted to minimize the Christmas transportation rush. A WPB bigshot told him his request was out of order because there was an alcohol shortage. Not a week later the same WPB mogul blandly testified before a Senate committee that manufacture of alcohol from grains was undesirable because there was no alcohol shortage, imminent or otherwise.

Before long you're to lose that carefree habit of buying consumer goods by trade name reputation. Trade names on many items are going out for the duration. Standardized victory models of untested quality will fill the shelves.

Chemical shortage will shortly deal consumers and farmers a body blow. An expansion of chemical facilities for the war effort had been planned but has been revoked because of building supplies scarcity. That means war industries will siphon off increasing amounts of available chemicals. As consumers, we must expect a rapid diminution or transformation in multitudinous articles with chemical ingredients. Farmers should get set for dwindling types and volume of fertilizers.

Army cargo operations are saving commercial airlines from the red ink. Distorted War Department press information has led the public to believe the lines were being absorbed by the military. Hence, passenger traffic has been shrinking—planes are flying with empty seats. But mounting Army demands for cargo services the world over keep the private operators profitably busy. Within the next few days two more commercial lines will set up new trans-ocean extensions. As a whole, earnings of the industry should remain well above the danger zone.

Here's something significant. The War Department is operating a special school to train selected Army lawyers how to administer civil laws of the various Axis nations. That may mean the military plans to move in and actually run those countries when defeated. That's a brand new occupation theory. In the last war we helped police Germany but didn't interfere with governmental functions.

Wholesale and retail hoarders with overstocked shelves will presently be asked to sell back any excess over inventory standards to be fixed by WPB. If they don't comply, they'll be ordered to. WPB is determined to blast dammed up goods back into circulation.

The Army is viewing with distrust Agriculture Secretary Wickard's plan for importing farm labor from Mexico. The war makers want safeguards to prevent enemy agents from slipping in behind overalls and a pitchfork.

On the Industrial Front

The No. 1 headache of our war production planners is raw materials and it will get steadily worse. Fact is that there is a limit to the armaments we can turn out. The limit begins to appear well short of some of the astronomical projections of planes, ships, tanks, guns, etc., that have been made by the Army and Navy.

It's no longer a matter of machine tools or factory floor space. It's not primarily a matter of labor. Main trouble is that we haven't got — and can't get — enough steel and copper to fill the more grandiose war production schedules.

Scrap collection drives will help but are only a partial and inadequate answer. Expanded production of key raw materials will help, but the maximum possible lift over the next year would also be inadequate. More metals can be squeezed out of non-war consumption but this also would be an inadequate answer as such consumption has already been vastly reduced. Cancellation of the largest single merchant ship contract and WPB consideration of a drastic cut in farm equipment output illustrate the great urgency of the problem.

In addition to all the above expedients, the final answer probably will have to be had in the field of strategic military decisions. We are trying to produce the maximum amount of everything that might conceivably be needed to fight a war anywhere in the world and on a multiplicity of fronts simultaneously.

Up to now, whether unavoidably or not, extraordinarily wide dispersion of our forces has characterized the military effort. Under the circumstances that have prevailed, it may well be that no high command could have done otherwise. Nevertheless the hard fact is that such dispersion violates the first principle of military strategy and tactics. A similar dispersion characterizes our war production. Trying to get colossal totals of all kinds of equipment at the same time aggravates production unbalance, multiplies the bottlenecks. Aside from that, what could be produced by present facilities, as well as the raw materials that would be needed, were badly underestimated by WPB.

Bold priority choices on such weapons as promise quickest offensive dividends may have to be made. If our air experts are right — and surely they have been right to date — we should give a super-priority, at whatever cost to other equipment, to air transport and medium and long-range bombers. It is no secret that American air forces are on the verge of full collaboration with the British in a mass bomber offensive against Germany. Nobody knows what the ultimate in air warfare can achieve. Whether it can win a war or not, it certainly could conceivably get results that would reduce the needed volume of land and ocean equipment. We'll know a lot more about that by winter. The point is that air developments over the relatively near future might put a substantially different light on our war production and raw materials problems.

Union labor is beginning to worry about possible shutdowns or reduced operating shifts in certain war plants. It is reported, for instance, that motor trucks have been greatly overproduced in relation both to the volume that can be exported this year and needs in this country.

It is true that a great shortage of skilled labor exists and that it will get worse. But labor can be trained to specialized machine tasks in a relatively short time. The basic problem, therefore, is whether we have enough of the "raw materials" of labor—enough men and women who can be trained for war work. The answer is yes. You can't calculate on both an acute shortage of basic raw materials and of basic labor forces. The two simply don't go together. Whatever the limit is on available key materials, it puts a proportionate limit on the numbers of workers required for fabrication of the materials. From time to time, you will probably see further downward revisions in official estimates of the added numbers of war workers to be needed—though in any event it's a sizable total.

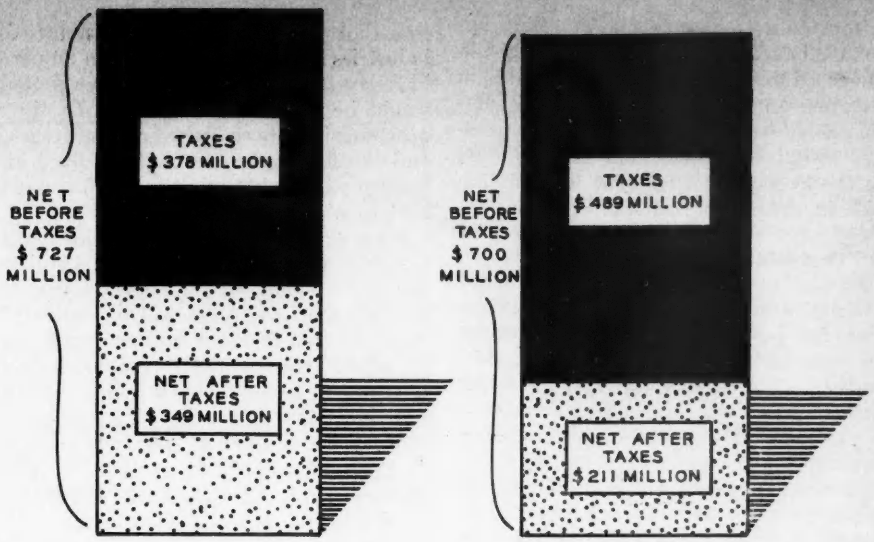
Even the politicians have virtually stopped talking about "war conversion" of small plants. WPB will do what it can but Nelson has diplomatically warned that it can't be much—and that means practically nothing.

Total production for civilians is now back to the average level of 1935 and down about 30 per cent from a year ago. A major part of the non-essential "fat" has already been squeezed out but there is a bit more to come. We shall be lucky if output of consumer goods next year is no lower than the average of the depression years 1933-1934.

Further rise of 10 to 15 per cent in manufacturing payrolls over the next twelve months is most likely, even assuming that the Administration achieves a much greater degree of stabilization in hourly wage rates. The latter is a quite dubious assumption, on present indications.

Machine tool output is understood to be now above $110,000,000 per month, in excess of full-year production in most past periods and comparing with monthly average of 15.4 millions of dollars in 1929. Dollar for dollar, these new machines are about twice as efficient as the average machine in factory use in 1939. We'll come out of the war with an effective machine tool capacity at least four times greater than pre-war. That's probably a post-war headache for the machine tool industry — but it could be a boon, indeed, to civilian production. Not all of the machines will be convertible to peace-time work, but an important percentage will.

This thing is remaking the industrial map of America in important measure. Some localities flourish, with new problems of housing, transport, power, water supply, sewers, utilities, etc. Others droop, with an unemployment problem on the one hand, reduced tax revenues on the other hand, especially from gasoline levies. Industrial plants grow where corn or soy beans grew before. Some of this revolution is temporary but some will stick. And the trek of industry to the regions of cheap labor and power and good year-around climatic conditions — especially in the deep south—is permament, even though the wage differentials are slowly on their way out.



First half, 1941, results for 88 manufacturing companies.

First half, 1942, results for 88 manufacturing companies.

Market Evaluation Of War Earnings and Dividends

BY J. C. CLIFFORD

Corporate earning statements issued to date for the first half of the year show an aggregate decline of about 37 per cent from results of the first half of last year.

There are several reasons, however, for believing that this comparison tends to exaggerate the bleakness of future corporate earning power under war taxes. In the first place, the reports issued up to this writing cover probably no more than one quarter of all companies with listed securities; and in a "sampling" of this size the inclusion of even one large company with an abnormal earnings situation can distort the composite picture very materially. It would be easy, for example, to find a hundred listed companies whose combined earnings do not approach those of General Motors alone.

You can see how this works out to distort the general picture given by the first couple of hundred of half-year reports when it is noted that for the period General Motors reported net profit of only $47,892,000, as compared with $118,226,000 in the first half of last year or a reduction of, roughly, 60 per cent. Now General Motors is by far the largest single "war conversion" situation in the country. The company itself has the utmost difficulty calculating what its "true earnings" are under these conditions. So it has set up very large contingency reserves.

These special reserves—which may or may not have to be utilized at some time in the future—amounted to more than $33,000,000 for the half year, against no equivalent provisions in the first half of 1941. Without them, earnings would have been around $80,000,000 or some 47 per cent down from the first half of last year. Moreover, volume of war production—on a steadily rising scale—was too low in the half-year to provide by any means a conclusive test of what this company can earn on future larger volume, under the pending schedule of taxes.

Tax Accruals Higher

For another thing, it is probable that the tax accruals charged off against first-half earnings by most corporations will prove somewhat larger than will be necessary to meet this year's increased levies. Today corporate management is under no temptation or inducement to set forth profits in as favorable a light as possible. On the contrary, with an eye on the tax-framers in Congress and on the labor unions, it is under some temptation to lean over backward in the conservatism of its profit accounting.

Relatively few companies state in their reports that they have accrued taxes at the rates provided in the legislation recently passed by the House of Representatives—that is, 45 per cent combined normal and surtax, plus 90 per cent excess profits tax. Among these, incidentally,

as will be seen from an accompanying table, there are at least some which haven't fared so badly, after all. In most cases, increased tax allowance is simply stated in dollars as representing an amount which, in the judgment of directors, should be sufficient to cover any probable rise of rates contained in the final tax law. As above indicated, the average management leans to the "play it safe" side in these approximations.

Tax Law "Post-War Refunds" Probable

Since the Treasury itself is definitely on record as favoring provision for post-war refunds of all excess profits tax levies over and above an 80 per cent rate, it seems a better than even bet that the final legislation will contain a refund provision. Naturally the current earnings reports can make no allowance for this favorable contingency—but in many instances it would result, at or before the year-end, in substantial upward "adjustments" of per share earnings reported. Although the sums involved would have to be paid to the Treasury in cash, the fact that they would be subject to refund after the war would materially modify the justification for the extraordinary contingency reserves that many companies are currently deducting from stockholders' earnings but which can't be deducted from the earnings reported to the Government for tax purposes. As a matter of fact, these special reserves amount to "post-war refunds" set up by the companies themselves.

In previous studies of the matter of rising taxes and corporate earning power, we have expressed our conviction that the aggregate 1942 earnings of manufacturing industries would be no more than 30 per cent under the high level of 1941, and that more probably the decline would be around 25 per cent. In the meanwhile tax proposals have been shifted around from month to month and the final rates are far from fixed at this writing—but we still stick to that rough forecast of 25 to 30 per cent earnings decline.

However, in turning to consideration of the stock market's valuation of corporate earnings, let's play it safe and assume, for the moment, that aggregate industrial earnings this year will be one-third less than last year. In that case, the total earnings of a representative list of 200 large industrial companies, for which we have a long-term back record, would be about $1,000,000,000, against $1,518,000,000 last year, $1,265,000,000 in 1940, $999,000,000 in 1939, $576,000,000 in 1938, $1,252,000,000 in 1937, $1,124,000,000 in 1936, $711,000,000 in 1935, $415,000,000 in 1934 and $257,000,000 in 1933.

In only four out of the thirteen years since 1929 have these companies earned a total of more than $1,000,000,000. This figure would be only 11 per cent under their earnings of 1936. The Dow-Jones industrial average today is about 36 per cent below the *average* level of 1936. Another way of putting it is to say that in relationship to the medium-good peace year 1936, average industrial stock prices are more than three times as depressed as 1942's probable industrial earnings.

An illuminating way of measuring the great fluctuations of "investment confidence" in earnings prospects is to look not at average stock prices but at the valuation of earnings represented by the stock prices. For convenience, let's take the quarterly total earnings of the 200 industrials for which the writer has a running back record before him and see how much they amount to for each 1 point in the Dow-Jones industrial average—the latter at the present writing standing at approximately 105.

Well, I calculate on the basis of second quarter reports, that our 200 industrials have about $2,100,000 of current quarterly earning power for each 1 point in the Dow-Jones industrial average. The highest earnings this representative group ever had were marked up in the second quarter of 1929. Taking the Dow average's "average" for that quarter—that is, the mid-way level of its quarterly range—we note these companies then had about $1,400,000 of quarterly earning power for each 1 point in the stock average.

But, of course, you are fully aware that stock prices in ratio to current earnings are far lower than in the speculative days of 1929. So let's consider the other extreme. There were only two quarters in the deep depression year 1932 when this group reported any net profits. We'll take the poorest of these two, which was the second quarter. In that period, on the same calculation, there was only $141,000 of earning power behind each 1 point of the industrial average at its mid-way level for the quarter. Statistically speaking, industrial stocks are about 15 times as cheap, in ratio to current earnings, as they averaged in the second quarter of 1932!

Of course, this is carrying statistics to absurdity—but our purpose is merely to illustrate a valid principle of investment. It is this: Investors, as reflected in the consensus of the market, never take abnormally good or

Comparing Price-Earnings Ratios

(First column is ratio of recent price to estimated 1942 earnings per share; second column is ratio of recent price to 1936-1939 average earnings per share.)

	1942	1936-1939
Bethlehem Steel	9	14.5
Republic Steel	7	27.4
Worthington Pump	2	30.8
Baldwin Locomotive	2.3	(Deficit)
National Acme	4	10.4
White Motor	6.9	(Deficit)
National Malleable & Steel Castings	6.2	9.8
General Railway Signal	6.1	43.5
United States Steel	9.6	21.3
New York Air Brake	7	12.2
Chrysler	12.2	6.9
General Motors	15.2	9.5
Clark Equipment	4.9	11.2
Doehler Die Casting	7.3	9.5
National Cash Register	8.5	10
Eaton Manufacturing	6	10.8
Caterpillar Tractor	12.5	9.7
Minneapolis-Honeywell	12.6	11.3
Allis-Chalmers	13.3	10.8
Johns-Manville	12.7	14.6
Inland Steel	10.3	9.4
General Foods	16	13.1
National Distillers	9.6	6.2
Loew's, Inc.	7.1	6.5
Monsanto Chemical	26	18.4
du Pont	31.3	20.2
Cluett, Peabody	8	16.4
Skelly Oil	6.2	7
Phillips Petroleum	10.3	11.7
Freeport Sulphur	10.6	12.7
Wrigley	16.6	11.7

Earnings Under Maximum Taxes

Following earnings reports provided for 45 per cent normal and surtax and 90 per cent excess profits tax:

	First Half-Year 1942	1941
Skelly Oil	$2.25	$2.72
Barnsdall Oil	.54	.58
General Motors	.99	2.72
Studebaker	.31	.51
General Precision Equipment (3 mos. June 30)	.36	.44
International Business Machines	3.90	5.01
Wheeling Steel	1.91	6.60
Clark Equipment	3.37	3.85
Revere Copper & Brass	.51	1.58
Westvaco Chlorine	1.05	1.41
Simonds Saw & Steel	1.47	2.39
Doehler Die Casting	1.46	2.49
United States Pipe & Foundry	1.73	2.61
Norwich Pharmacal	.18	.23
Midvale Co. (12 mos. June 30)	4.87	6.20
National Distillers	1.21	1.01
Baldwin Locomotives (12 mos. June 30)	4.18	1.20
National Cash Register	.45	.51
Container Corp	.46	.62
General Steel Castings preferred	10.46	16.90
General Baking	.29	.03
Sun Oil	1.22	1.90
Penick & Ford	.87	1.04

abnormally bad earnings at face value. The stock of a sound, seasoned company which has earned money and paid periodic dividends in the past, never goes to zero when earnings disappear and are replaced by a deficit in a depression year, conversely, the stock of a company which normally earns little and pays no dividend does not rise through the roof when, for special and presumably temporary reasons, the company has large earnings.

Similar generalizations have valid application to the market as a whole. Some of the more bearish analysts warn that, on the basis of "a long, hard war," there may be still further increases in corporate taxes next year or the year after that. They say that stocks are too high in relation to current earnings and still more badly over-priced in relation to the probable earnings or next year and of 1944, if the war is still going on then.

It must, of course, be conceded that stock prices always are based only in part on the tangible, measurable factors and perhaps equally as much on "sentiment." When "sentiment" approaches mass hysteria we get a speculative extreme like 1929 prices or an abysmal price level like 1932. Unreasoning fear could put this market down under the average lows of last April. I certainly can't say this is out of the question.

On the other hand, whatever its other failings, there is much evidence to suggest that today's market is not one likely to go to any emotional extreme either way. The overwhelming majority of investors are just "sitting tight." The prevailing mood is, and for some time has been, extreme caution, watchfulness, sober calculation. That is not the kind of market likely to go "haywire" either way. It is the kind of market that I think is likely increasingly to act on the measurable realities and the calmly calculated probabilities.

Now what our bearish analysts fail to allow for is that stock prices at the spring lows, even as measured by the not too representative Dow industrial average, were *under the average level of the depression year* 1934 in which year corporate earnings were some 60 per cent lowr than they will be this year and lower than they are likely to be in any year of this war, regardless of any conceivable further increase in taxation.

And that still is not the full story. If you take a really representative cross-section of the market—such as is provided by this publication's weekly index of 270 equities, it will be noted that at the April low the market was lower *than at any time during* 1934; under the *average range* of 1933; and only 10 points above the *average range* of 1932.

All of which amounts to saying that the market as a whole is at such deep depression levels that it has substantially—and more likely completely—discounted the war-time shrinkage in earnings due to higher taxes, whatever the final proportions of that shrinkage turn out to be. There is also ample evidence that the market is becoming less and less responsive to quarterly variations in earnings, just as it has become less and less responsive to the war news, whatever it happens to be at any given time.

As I see it, there is one most significant thing to be noted. It is this: Individual stocks are being priced today substantially on an ex-war basis. That is, in the valuation put upon earning power, investors are governed far more by their assumption as regards *future normal, peace-time earnings*—even though such potentialities can only be gauged on the most tentative basis and in large measure on the record of past peace years—than they are by any consideration of how much or how little the stock may earn and pay during war-time.

Proof of this statement can easily be had by noting the widely varying price-earnings ratios tabulated for representative stocks of varying types in an accompanying presentation. Some are "war stocks"; that is, stocks earning much more per share than they normally earned in peace-time. Some are "peace stocks" with sharply lower earnings than have been average in the past. Others are "conversion stocks," or, in other words, stocks of companies which can earn reasonably satisfactory, though less than (*Please turn to page* 468)

Companies Showing Large Earnings Gains Over a Year Ago

	Net Income Per Share of Common for 6 Months Ended June 30, '42	June 30, '41
Chicago, Burlington & Quincy R.R.	$4.15	$1.74
Consolidation Coal Co., Inc	1.95	0.51
Delaware & Hudson Co	5.55	2.76
General Baking Co	0.29	0.03
General Railway Signal Co	1.08	0.14
Great Northern Railway Co	2.21	1.27
Howe Sound Co	1.89	1.46
Illinois Central R. R. Co	6.41	3.50
Jackson (Byron) Co	1.72	0.47
National Cash Register Co	0.96	0.81
National Distillers Prod. Corp	1.21	1.01
New York Central Railroad	2.58	1.84
Pond Creek Pocahontas Co	1.45	0.89
Simmons Co	1.61	1.09
Southern Railway Co	7.54	4.74
Texas & Pacific Railway	5.38	1.99
Transue & Williams Steel Forging	1.64	1.02
Union Pacific Railroad Co	5.55	1.70

10 Outstanding Stocks For Income and Profit

By The Magazine of Wall Street Staff

McGraw Electric Company, well-known producer of "Toastmaster," "Wafflemaster" and various other electrical appliances, has had an interesting growth record. While the company was slightly in the red in 1932, earnings increased steadily thereafter to 1938 (in which bad industrial year there was a slight decline). Thereafter they again increased to $3.07 in 1940, with a slight dip to $2.92 in 1941. For the 12 months ended March 31, 1942, $3.04 was earned compared with $3.25 in the previous year.

Total capitalization is 472,600 shares of common. Cash assets are more than sufficient to pay off all debts and the current ratio is about 2½ to 1. As indicated in the accompanying table, the stock is currently selling to yield about 10½%. Even though it should be necessary to trim the dividend to $1.50 because of further tax inroads, the yield would still be ample.

The company is now working at capacity on electrical fuses for the war program, this business having been doubled over last year. Peace time transition to appliances, for which there should be an accumulated demand, should not prove difficult.

Food Machinery Corp. is one of the smaller specialty companies, less familiar perhaps to the average investor but worthy of attention. It is one of the few industrial companies which made money in 1932. While only 6 cents was earned in that year there was a steady gain to $4.21 in 1937. Due to the 1938 depression earnings dropped to $1.58, but were again built up to a high level of $4.85 for the twelve months ended March 31, 1942—well over twice the 1929 figure.

The company has always followed a conservative dividend policy with the result that a strong cash position has been built up. The current ratio last September (close of the fiscal year) was approximately 4.4 to 1.

In addition to its major line of small agricultural implements (machinery for spraying, washing and grading fruits and vegetables, canning equipment, etc.) the company has diversified into other fields and has now entered war work. A new plant in Florida manufactures amphibian tanks for the U. S. Navy.

While the stock may appear somewhat generously priced in relation to dividends and the excess profits exemption, allowance must be made for the excellent growth record. Continued demand for its products, for use in the canning of farm products for lease-lend and military requirements, seems likely.

Chrysler, one of the "big three" producers in the automobile industry, reflects an American "success story" second only to that of Henry Ford. Walter Chrysler, locomotive and auto mechanic, built up the company from small beginnings with the help of the Brady and Bache interests. The company was organized in 1925, taking over the old Maxwell and Chalmers properties, and later acquiring Dodge Bros. in a record financial transaction. Assets increased from $85,000,000 in 1925 to the present figure of $239,000,000.

The company is now converted to a war basis with some twenty-four projects under way. While it has concentrated largely on tanks, it is also making trucks, engines, cannon, ammunition and aircraft. A huge new "mystery" plant, biggest in the world and considerably larger than Ford's Willow Run plant, is under construction somewhere in the west.

The Statistical Highlights

	Current Price	1942 Range	Dividend Rate	Current Yield	EARNINGS Year 1941*	Interim Report Period Ended		Interim Report 1942	1941	Excess Profits Exemp.†	Price Times Exemp.	Current Ratio**
Chrysler	62	64-44	$5.00	8.1%	$9.22	3 mos.	Mar.	$1.13	$2.20	$6.42	9.6	4.3%
Borg Warner	25	25-20	2.00	8.0	4.08	3 mos.	Mar.	.80	.69	1.84	13.6	2.2
McGraw Electric	19	20-14	2.00	10.5	2.92	12 mos.	Mar.	3.04	3.25	1.52	12.5	2.5
Food Machinery	33	33-28	1.75	5.3	4.27	6 mos.	Mar.	1.69	1.11	2.02	16.4	4.4
Outboard Marine & Mfg	23	23-17	1.00	4.4	5.12	6 mos.	Mar.	1.01	.99	2.62	8.8	2.8
Paramount	16	17-12	1.00	6.3	3.45	3 mos.	Apr.	.75	.63	2.47	6.5	3.6
Safeway Stores	35	44-30	3.50	10.0	5.86	....		.....	.....	3.29	10.6	3.2
National Distillers	23	24-17	2.00	8.7	3.47	6 mos.	Jun.	9.96	7.87	2.62	8.8	3.7
Bohn Aluminum	31	32-25	2.00	6.5	5.49	3 mos.	Mar.	1.25	1.34	1.88	16.5	1.6
Lee Rubber	23	23-16	2.25	9.8	6.19	6 mos.	Apr.	2.48	1.68	2.27	10.2	4.0

*—Or latest fiscal year. †—Estimated after deducting 45% normal tax; companies with 90% excess profits tax could in addition retain 10% of any additional earnings. **—Ratio of Current Assets to Current Liabilities.

The company has built up a strong cash position and at the end of last year over $90,000,000 (about 38 per cent of the assets) were in cash and Government bonds, while inventories and receivables totaled $81,000,000. With total debt (all current) amounting to some $40,-000,000 the current ratio was 4.25 to 1. Net sales last year amounted to $888,000,000, which amount doubtless exceeded the total output value of some of our smaller industries. It is expected that this peak rate (which was nearly 2.4 times that of 1929) will be virtually doubled when the capacity output of war munitions is reached. Due to the fact that most war work is on a cost-plus-fee basis, profit margins will be smaller and taxes will cut in substantially, but the estimated excess profits tax exemption of $6.42 under pending House tax proposals still makes the stock seem attractively priced at current levels around 62.

The company's post-war prospects should also be good, for in addition to its well diversified automobile and truck lines, it manufactures marine and industrial engines, as well as air-conditioning refrigeration and special heating equipment.

Chrysler was split 4 for 1 in December, 1925, and the new stock advanced from 29 to 135 in 1929. It dropped to 5 in 1932, but again rose to 138 in 1936. Since then fluctuations have been less erratic, the current price being about half way between the highs and lows of 1938-42. While the stock has acted substantially better than the general market in 1942, it may continue to respond to any favorable trend since it appears underpriced as compared with many other stocks of similar caliber.

Paramount Pictures has enjoyed rapidly expanding earnings in the past four years, though the price still remains well below the high levels of 1936 and 1937. While the stock is in the "leverage" class because of the substantial amount of funded debt and preferred stock outstanding, it benefits by a generous excess profits tax exemption. Due to the large amount of real estate carried on the books, the $2.47 exemption listed in our table is probably ultra-conservative, as the company can probably obtain writeoffs or credits to increase the permissible earnings. The financial condition as of January 3 this year was excellent, cash exceeding the current liabilities.

The company is benefiting by a rapid and accelerating increase in public purchasing power, and is not affected appreciably by any war-time restrictions; in fact the government appears anxious to use the movies to maintain public morale, as well as for propaganda purposes. Theatre attendance is also being stimulated by gas rationing, movies being substituted for pleasure driving.

The company is building up an inventory of motion pictures for use in continental Europe after the war, although the cost is probably being written off currently. Moreover, the end of the war should release a substantial amount of cash now held in England.

The company's business is well diversified since it operates about 650 theatres, where its own and other pictures are displayed. Through its interest in DuMont, the company has an important stake in the future development of television, which it hopes to correlate with its moving picture activities after the war.

While the stock enjoyed a substantial advance from around 4 in 1940 to the current level around 16, this seems warranted by the high level of current business and the fact that the company should have no post-war readjustment problems.

Bohn Aluminum is in a position not only to benefit by the huge war demand for aluminum products, but also by increased post war use of light metals (the company is also in the magnesium field).

Capitalization consists only of 352,418 shares of common stock. While earnings in 1941 exceeded any year of the period 1933-7, the stock is selling well below the average levels of those years, possibly due to anticipated tax burdens. For those who desire a stock with large post war growth possibilities, Bohn would seem a good selection, because of its well diversified position in the automotive, refrigeration, architectural and household utility fields.

Safeway Stores is one of the more stable earners in our list; while the big grocery chain organizations enjoyed rapid growth in the 1920's, earnings during the later decade have been somewhat irregular. The earlier period was one of rapid growth and transition, but in the 1930's competition between the big chains and remaining independents became stiffer, with resulting narrower profit margins.

Safeway, now merged with Daniel Reeves, is the third largest chain. Its net sales last year amounted to $475,000,000, while assets were carried at over $100,000,-000. Earnings in recent years have averaged around $5, last year amounting to $5.86; maximum earnings under the present proposed taxes would probably be under $3.50, the present dividend rate. At 35 the stock yields 10% and, while perhaps not outstandingly attractive for appreciation possibilities, it has proven investment caliber.

Lee Rubber and Tire, while one of the smaller tire companies, is notable for the substantial growth in earnings since 1929 (from $1.62 in the latter year to $6.99 in the twelve months ended April 30, 1942), the strong financial position (cash exceeding all debts), and the attractive stock yield. The excess profits exemption just about covers the current dividend rate. Despite disruption of the tire industry, earnings for the six months ended April 30 were nearly 50% over the corresponding period last year, largely due to the company's defense activities.

While there might be some future irregularity in earnings due to transition to a peace-time basis, the dearth of tires should prove a strong supporting factor in post-war earnings. Development of synthetic rubber plants, though the subject of current controversy at Wash-

ington, should provide ample raw material by 1944 in our opinion, probably at lower costs and better quality than oriental crude rubber. In the meantime, the company should continue fairly busy with necessary government business. Considering the sound financial record—the company is virtually the only important tire producer to avoid losses in 1932 and other depression years—the stock appears attractively priced at current levels "for the pull," despite its advance in the past year or so.

The stock of **Borg Warner**, a $75,000,000 auto accessory company, advanced from a 1932 low of 1⅝ to the 1937 high of 50⅝, at which time substantial purchases were being made for large investment accounts. In recent years the stock has fluctuated at lower levels, although earnings reached a new high level of $4.86 in the 12 months ended March 31.

Part of the company's success has been due to its consistent efforts for diversification of products. In addition to its accessory business established in 1928, it produces the well-known line of Norge refrigerators and kitchen ranges, washing machines, air-conditioning units, oil burners, etc. High-carbon and stainless steel products are produced as well as power transmission devices, drilling machinery, etc. Thus the company is well equipped for post-war markets. At present practically all divisions are working at capacity on war business, operations reaching a new high level with a gain of 46 per cent in the first quarter. First quarter profits were 80 cents compared with 69 cents last year.

The company maintains a comfortable financial position, cash as of March 31 amounting to over $13,000,000 and current assets $54,000,000, compared with $24,000,000 current liabilities. Capitalization consists only of 2,336,646 shares of common stock. The stock has been in a gradual uptrend over the past two years and while perhaps not an outstanding bargain at current levels it offers an excellent yield and good growth prospects, meeting most requirements of a sound portfolio.

Outboard, Marine & Manufacturing Co., is another relative newcomer to the big board where it was listed in 1937. Earnings for the 12 months ended March 31 established a new record at $5.15, which compared with $4.27 in 1940 and $2.28 in the initial year of 1936.

The company was a merger of two companies, one formed in 1921 and the other in 1929. As indicated by the name, it is the leader in producing outboard motors for small pleasure craft ("Evinrude," "Elto" and "Johnson Sea Horse"). It also produces commercial refrigerating units, industrial engines, pumps and generators, power mowers and bicycle motors. While the company's business has naturally become affected by priorities and other restrictions, it has entered the defense field and will probably participate more heavily in the future. Dividends have been held to conservative levels and total debts were more than covered by cash assets last September. The stock is selling at less than nine times the excess profits "ceiling."

National Distillers has almost an unique record for stability of earnings since 1932. While in the latter year only 17 cents was earned, in each subsequent year earnings have exceeded $3 a share (in 1934 they were $5.51, all these figures having been adjusted to the 1939 three-for-one split up). Back in 1933 the liquor stocks enjoyed a sudden bull market of their own due to the ending of prohibition. National advanced from around 17 to 125. In 1934 and subsequent years, however, the new stock sold at much lower levels with only moderate fluctuations in recent years. At the current price level the stock still seems attractive, although it has enjoyed a fairly good advance in recent months. The industry is in a position to benefit both by increased consumer demand and war time use of alcohol. National's inventories, which amounted to nearly $41,000,000 at the end of 1941, should prove profitable to the company.

Operating profit for the six months ended June 30, 1942, amounted to $5,496,000, being about 55 per cent over that for the corresponding months of 1941. Federal income and other taxes of $2,468,000 were nearly two and one-half times larger than similar levies for the first half of 1941. Nevertheless, the company succeeded in registering earnings progress, and net income was equal to $9.96 per share, as against $7.87 per share, in the respective half-year periods.

The company's products include such well-known names as Old Overholt, Mt. Vernon, Old Grand Dad, Old Taylor, Sunny Brook, etc.

The newly formed Air Transport Command of the Army is calling upon private airlines for the largest and fastest expansion in their history. In a few months airlines expect to be flying three times the number of planes—double their personnel—triple their air-freight tonnage—and fly to every corner of the world.

1942 Midyear SPECIAL

Security Appraisals and Dividend Forecasts—

PART TWO

Outlook and Ratings for Individual Equipment Companies and Miscellaneous Securities

In the interest of safeguarding accumulated capital and maintaining a satisfactorily dependable income from security investments, it has always been advisable for investors to re-appraise their holdings periodically. It should scarcely be necessary to emphasize that this is even more essential now, under the radical and numerous industrial changes in a war economy.

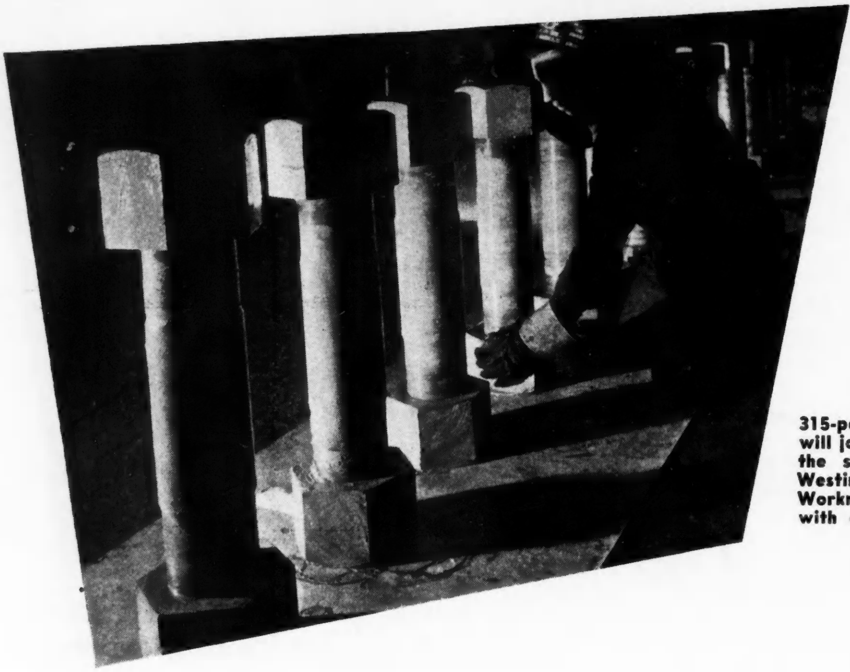
It is to meet exactly this need that THE MAGAZINE OF WALL STREET, as for many years past, presents its Security Appraisals and Dividend Forecasts at six-month intervals. Our subscribers in the aggregate hold securities of hundreds of different corporations. Extensive analysis would permit coverage of too few to be adequately useful. Hence our effort on following pages is to present the most pertinent information and ratings, on the maximum possible number of companies, as concisely as possible for the convenience of our readers.

Under the pending tax program, the most influential single factor bearing upon prospective corporate earning power is the company's "tax credit." Hence, this is included in all individual company tabulations on following pages, where possible. Where for special reasons its accurate calculation is impossible, we omit it. The credits are figured on basis of 45 per cent normal and surtax.

In addition we include a general tax rating, as follows: a.—"Should be able to absorb higher taxes without undue difficulty"; b.—"Not likely to be subject to heavy excess profits taxes"; c.—"Higher taxes will probably reduce earnings"; d.—"Higher taxes threaten current dividend rate"; e.—"Higher taxes may preclude larger dividends."

The key to our regular ratings of investment-market quality and current earnings trends—last column in the tables, preceding comment—is as follows: A—High Grade investment quality; B—Good; C—Medium Grade; D—Marginal; E—Low Grade; while the accompanying numerals denote current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a high grade investment equity with an upward current earnings trend, D3 a marginal issue with a downward earnings trend.

Selected issues which are recommended for safe income are denoted with a star symbol preceding company's name; issues favored for appreciation are marked with a dagger; and issues which we think promising for both income and appreciation are marked with an asterisk. Timing of purchases for appreciation should, of course, accord with our general trend advice given in our regular market analysis in the forepart of each issue.



315-pound bolts, which will join two sections of the shaft for a giant Westinghouse generator. Workman is coating bolts with a protective compound.

Profit and Dividend Outlook For Machinery and Equipments

Capacity Operations Indicated for the Duration

BY JOHN C. HARRINGTON

AMERICAN ingenuity and resourcefulness have never been more forcefully demonstrated than in the amazing transformation of the equipment industries from peaceful pursuits to production of bombers, cannon, machine guns, tanks, fighting planes and fighting ships—and all of the other implements of war essential to a conclusive and enduring victory over our Axis enemies.

The ancient Biblical prophecy that swords shall be beaten into ploughshares is being reversed with a vengeance by the agricultural equipment industry, which is turning out not alone ploughs, but also a wide range of military items, such as gun carriages, tanks, and other vehicles for military use—to mention but a few—on a constantly increasing scale. Makers of electrical equipment, particularly in the heavy divisions, are devoting an expanding portion of their facilities to production of ship propulsion machinery and accessories, as well as of a large variety of electrical devices for direct use in the war effort.

Machinery to be utilized in output of every type of ordnance and armament continues in tremendous demand, while production of machine tools has recently been at record levels. Transition of the office equipment industry from a peace-time to a war-time basis was expeditiously accomplished, and production of a wide variety of small ordnance items characterizes operations of leading organizations in this field. The railroad equipment industry is ideally adapted to supplying military needs, and existing orders for such requirements are estimated at more than one billion dollars.

In general, while orders for strictly military purposes obviously are accorded prior consideration, processing of contracts from normal sources is being conducted, as far as is feasible, with due regard to the availability of essential raw materials.

It is estimated that more than 50% of the manufacturing capacity of the larger American farm machinery concerns is now devoted to direct military production, and that by the end of 1942 nearly 80% of output will consist of implements of war.

Conspicuous among the farm implement makers which have been favored with substantial war orders is Allis-Chalmers Mfg. Co. Unfilled orders of this organization as of March 31, 1942, exceeded $126,000,000, and included contracts for steam and hydraulic turbines, electrical equipment and special ordnance items. The Springfield, Ill., plant is being enlarged and another adjacent plant has been acquired in order to facilitate processing of this substantial business. J. I. Case Co. is engaged in production of tractors for the Government, as well as of a wide range of other military equipment. While implement sales of Deere & Co. will be lower for the current fiscal year, operations will be maintained at high levels as a consequence of large Government business, including orders for assembly of 1,500 transmissions for medium Army tanks.

Armament and ordnance business of International Harvester Co., largest of the agricultural equipment makers, is reported on an accelerating scale, aggregating considerably in excess of $400,000,000.

Adequate provision must be made, nevertheless, for the food requirements of the United States and her allies, and, in this connection, the War Production Board has revised its farm equipment program by increasing allotments of materials, principally steel and iron, to agricultural equipment producers, for the year ending October 31, 1942. Scarcity of labor and reduction in animal power are constantly increasing the dependence of the farmer upon mechanical equipment.

Eventual reversion of the farm equipment industry to a normal peacetime basis, following the cessation of hostilities, should be accomplished without undue economic stress. Reconstruction of war-torn Europe, with restoration of normal agricultural conditions, will provide an ample market for the output of American equipment makers, while rehabilitation of domestic farm machinery will also assure substantial demand for replacement and expansion purposes.

Conversion of the electrical equipment industry to a war basis has proceeded to an extent where practically all of the production of manufacturers in this field is connected with some phase of the war effort. Orders have been received in such tremendous volume as to compel large augmentation of productive facilities, thus assuring capacity operations for the duration of the war. Meanwhile, normal lines have been practically discontinued, and owners of washing machines, radio, refrigerators, vacuum cleaners, and other household appliances will experience difficulty in securing replacements until the dogs of war are permanently muzzled.

Wide Range in Electrical Equipment

While no details are available with respect to recent operations, it is stated that practically all of Crocker-Wheeler Electric Mfg. Co. orders are associated with some phase of the war effort. During 1941 the company, in addition to normal lines, produced motors for naval vessels, cargo ships, arsenals, aircraft factories, and steel mills. Output of Cutler-Hammer, Inc., is widely employed in a variety of industries directly engaged in military production.

Orders of General Electric Co. are at maximum levels. The broad scope of operations of this leading factor in the industry is enabling full participation in a widely diversified list of essential electrical equipment orders, while there has been no diminution of development and research activities. Moreover, numerous orders for the company's new Diesel-electric locomotives have been secured, while upward revision of public utilities expenditure budgets is also of favorable import from the standpoint of potential new business.

Operating facilities of Westinghouse Electric & Mfg. Co. are being further enlarged in order to expedite processing of the company's vast backlog—consisting principally of war orders—which approximated $581,000,000 on March 31, 1942. Output directly related to the war effort embraces bomb fuses, fire-control units,

Position of Leading Agricultural Equipment Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
*J. I. Case	5.38	b	13.23oc	....	....	12.00-13.00	7.00†	C-1	Government orders for tractors and other equipment may offset loss of business from normal sources, though unit profit may be lower. Higher costs and taxes are in prospect. Dividend for 1942 will probably be paid near year-end.
Deere & Co.	1.87	c	4.03oc	....	....	3.00-3.75	1.50†	C-3	Farm equipment sales affected by raw materials limitations. War orders proving important countervailing factor. Conservative distribution on common expected later in year.
*Internat'l Harvester	2.28	a	5.87oc	....	....	5.00-5.50	1.50	B-2	Increase in armament and ordnance business may not offset drop in normal volume during present fiscal year. Taxes and expenses are rising. Regular dividends should be continued, with small extra possible later in 1942.
Minneapolis-Moline	0.09	a	2.05oc	0.21(3)	0.13(3)	1.50-2.00	None	D-2	Unfilled orders are reported in excess of 1941 sales, consisting in larger measure of Government armament business. Moderate earnings shrinkage anticipated for current fiscal year. Preferred payments being made, but large arrears preclude common dividends.
*Oliver Farm Equip.	4.20	b	4.93	....	....	3.00-4.00	1.00	C-1	Military business becoming increasingly important. Farm equipment volume declining. General narrowing of profit margins expected. Dividend policy of company will doubtless continue conservative.

†—Paid within current 12-month period. oc—Year ends October. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. ★—Recommended for safe income. *—Recommended for income and appreciation.

propulsion equipment for naval vessels and for merchant ships, radio devices, and various other heavy and light equipment.

Gross revenues of the electrical equipment organizations will in all probability attain record levels during 1942. The tremendous volume will contribute toward sustaining profit margins, but tax increases will deprive these companies of much of the advantage of larger income.

Conclusion of hostilities will clear the way for large-scale rehabilitation of plant and equipment throughout American industry, assuring maintenance at high levels of operations of domestic electrical equipment concerns for a considerable period. It is pertinent to observe, however, that readjustment to a peace-time basis will probably involve a brief period of restricted earnings, while excess capacity may eventually become a serious problem for solution by company managements.

Production of machinery and machine tools has exhibited consistent gains during 1942, with principal demand arising directly from construction and equipping of mills and factories concentrating upon output of ordnance and armament, as well as from transformation of operations of other concerns to a war-time basis. Earlier in the year, the War Production Board announced a production goal of $2,000,000,000 for the machine tool

Position of Leading Machinery and Electric Equipment Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
Allis Chalmers	1.96	a	3.23	0.68(3)	0.35(3)	2.50-3.00	0.50	B-1	Industrial and ordnance equipment orders at high levels. Higher taxes not expected seriously to retard profit progress. Dividends approximating 1941 payments anticipated.
Babcock & Wilcox	1.44	b	6.33	0.99(3)	1.82(3)	4.00-4.50	0.75	C-3	Virtually all of production being utilized in some phase of war effort. Only moderate drop in earnings seen for 1942. Working capital requirements indicate conservative dividend policy.
Black & Decker	1.15	b	3.78se	1.76(3-6)	2.18(3-6)	3.00-3.50	0.80	C-3	Doubled capacity providing for increasing orders. Moderate decline in net income expected. 1942 dividends will approximate 1941 payments.
E. W. Bliss	1.00	a	5.63	....	....	4.50-5.00	2.00	C-2	Portion of large war business is being subcontracted. Enhanced costs and taxes will probably cut 1942 earnings. Present dividend basis can be maintained.
Bucyrus-Erie	0.45	a	1.65	....	....	0.75-1.00	0.30	C-2	Backlog doubled in past year. However, lower profits seem destined for 1942. Continuance of recent common dividend basis is likely.
Bullard Co.	0.90	a	7.17	....	....	5.00-6.00	1.00	C-2	Plant expansion is continuing, and orders are rising. Increased costs and taxes will doubtless affect year's results. Capital needs imply limited near-term dividends.
*Caterpillar Tractor	2.60	c	4.14	1.31(6)	2.28(6)	2.00-3.00	1.50	B-3	Activity high in all divisions. Expenses and taxes will reduce 1942 profits. Regular dividends should be continued.
Chicago Pneumatic Tool	0.36	c	6.15	0.68(3)	1.56(3)	2.75-3.00	1.50	C-3	All-time peak orders include many for war purposes. However, interim earnings are sharply lower. Small additional common dividend possible before close of year.
Crocker-Wheeler	0.60	b	2.52	....	....	1.50-2.00	0.30	C-2	All charges are higher, but only a moderate net income decrease is expected. Conservative dividend policy indicated.
Cutler Hammer	0.80	b	2.27	0.62(3)	0.65(3)	1.75-2.00	0.60	C-2	Products find wide direct and indirect wartime utilization. Profit margins are being fairly well maintained. Further dividends on reduced basis are probable.
Ex-Cell-O Corp.	0.90	a	6.22	5.16(5-6)	NF	6.50-7.00	1.30	C-1	Profits this year have been higher despite increased taxes. Orders are at record levels. Usual payments on common anticipated.
*Fairbanks Morse	2.00	a	4.87	....	....	3.50-4.00	1.50	C-1	Merchant marine expansion is important aid to Diesel output. Further distribution on common probable this year.
*Food Machinery	2.02	a	4.27se	1.69(3-6)	1.11(3-6)	3.50-3.75	0.70	B-1	Normal volume is high, with armament business increasing. Tax factors not especially unfavorable to earnings outlook. Extra payment on common may be made in near future.
Foster Wheeler	1.10	b	5.06	....	....	4.00-4.50	None	C-2	Business stimulated by maritime program and industrial demand. Recapitalization clears way for later possible conservative dividend.
General Electric	0.90	c	1.99	0.36(3)	0.39(3)	1.25-1.50	1.05	A-2	Appreciably higher taxes are offsetting revenue gains. Lower earnings are probable for 1942. Dividends will doubtless be continued on current basis.
Ingersoll-Rand	4.75	b	8.19	....	....	7.00-7.50	3.00	B-1	Shipbuilding program providing added stimulus to large volume of orders. Further common disbursements probable later this year.
Link-Belt	1.60	a	3.95	0.77(3)	0.75(3)	3.00-3.50	1.50	C-1	Civil and military demand at high level for company's diversified line. Earnings outlook satisfactory. Regular dividends indicated.
Mesta Machine	2.40	b	3.61	....	....	2.50-3.00	2.25	C-1	Munitions business expanding. Expected decline in 1942 profits may be but moderate. Future payments on common will probably be at recent rate.
National Acme	1.25	b	6.29	1.90(6)	3.14(6)	5.50-5.75	1.00	C-3	Plant expansion aiding processing of larger orders. Taxes are depressing interim earnings. Dividends may approximate last year's total.
Niles-Bement-Pond	0.95	a	3.56	....	....	3.00-3.50	0.50	C-1	Business from armament and aircraft sources believed expanding. Added payments on common expected this year.
Savage Arms	0.60	b	5.11	0.75(3)	0.75(3)	4.00-4.50	1.00	C-2	Major portion of output being utilized by our armed forces. Earnings outlook good, despite higher costs and taxes. Present dividend basis can be maintained.
Square D	1.50	b	7.14	1.23(3)	1.44(3)	5.00-6.00	1.00	C-3	Instrument sales to aviation industry are feature of operations. Receding earnings suggest conservative dividend policy.
United Engr. & Fdry.	2.50	c	3.96	....	....	2.75-3.00	1.25	C-3	Production establishing new records. Lower profits likely for 1942. Conservative dividend basis indicated.
Westinghouse E. & M.	3.50	c	7.21	2.10(6)	4.33(6)	4.00-4.50	2.00	A-3	Unfilled orders, mostly of military character, at peak levels. Tax increases will reduce 1942 profits. Further common dividends, with total under 1941 payments, are anticipated.
Weston Elec. Inst.	1.50	c	5.84	0.74(3)	1.60(3)	2.50-3.00	1.00	C-3	Aviation industry believed to be principal sales outlet. Heavy taxes are affecting 1942 earnings. Dividends under last year total are probable.
Worthington Pump	1.60	a	8.42	2.67(3)	2.11(3)	7.00-7.50	None	C-1	Decreased earnings seen for 1942. Payments on common must await clearing of heavy preferred accumulations.

*—Recommended for income and appreciation. se—Year ends September. a—Should be able to absorb higher taxes without difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings.

industry, which would compare with output of about $750,000,000 last year. While monthly production figures are no longer published, it is possible that the total output of such equipment during 1942 will approximate the WPB objective.

During the past few months, normal operations of the machinery industry have been severely reduced. Among the divisions affected are leather working and tanning machinery, shoe machinery, textile machinery, and cotton ginning equipment, as well as the machine equipment utilized by beverage bottling, paper and pulp mill, and printing and publishing trades, among others.

Virtually all of the output of Babcock & Wilcox Co. is being consumed by a wide list of industries engaged in war-time production, and indications are for continued capacity operations. This concern is a prominent builder of steam boilers for stationary and marine use, water-cooled furnaces, oil, gas, and multifuel burners, superheaters, and air heaters, as well as varied other equipment. Shipments of Bullard Company, producer of machine tools, are running well above those of a year ago, while new business continues to advance. Operating facilities have been considerably augmented in the past year.

A.C.F.

Tanks are but one of many war materials which the railway equipment companies are ideally fitted to produce.

Unfilled orders of Chicago Pneumatic Tool Co. are at record levels, with a large proportion of output directed to the aviation and shipbuilding industries. This company is the largest producer of portable pneumatic tools. While orders for the varied line turned out by Ingersoll-Rand Co. are substantial, of particular significance is the business developing from our vast naval and merchant marine construction activities. With unfilled orders reported to be in excess of $75,000,000, capacity operations for Worthington Pump & Machinery Corp. are expected to continue indefinitely. Prospects of this concern are also favored by the steady growth in utilization of Diesel engines, not only in naval and merchant vessels, but also in army tanks.

Plant expansion has also accompanied the advance in orders in the machinery and machine tool industry, and this extra capacity should prove of considerable usefulness in the primary phase of the post-war period,

Position of Leading Business Equipment Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
★Addressograph-Multi.	1.13	a	2.00jl	1.26(9)	1.24(9)	1.50-2.00	0.75	C-2	Government requirements absorbing virtually all of output. Facilities increasingly converted to armament output. Profit shrinkage expected for future months. Present dividend basis should be continued.
Burroughs Adding.....	0.66	b	0.95	....	....	NE	0.45	C-2	Normal production reduced. Equipment to be converted 100% to armament production in 1943. Smaller operating margins will probably result. Total 1942 dividends expected to be under $0.70 paid in 1941.
Intl. Business Mach....	5.73	a	10.44	2.83(3)	2.55(3)	10.50-11.00	3.00	A-2	Contraction of regular business continuing, in consequence of rapid conversion to war work. Heavier taxes and higher costs expected. Regular cash dividend rate will probably be maintained.
★National Cash Register	1.12	b	2.00	0.96(6)	0.81(6)	1.50-2.00	1.00	C-2	Cash register output has been suspended. 1943 will witness full conversion to production of military equipment. Some decline in earnings is likely, but no alteration in regular dividend rate is anticipated.
Pitney-Bowes.........	0.34	c	0.62mr	0.65mr(12)	0.62mr(12)	....	0.20	C-2	Drastic reduction in new equipment sales is foreseen. However, conversion to war output has been substantial. Indications are that regular dividend rate will be continued.
Remington-Rand......	0.73	a	2.17mr	3.07mr(12)	2.17mr(12)	....	0.65	C-2	Facilities being increasingly utilized in armament production, with typewriter output virtually suspended. Moderate earnings decline is probable. Total 1942 common dividends may approximate last year's payments.
*Royal Typewriter.....	3.49	b	9.19jl	4.28(1-6)	3.93(1-6)	8.50-9.00	3.00	B-1	Expansion in war production will largely offset virtual discontinuance of typewriter output. Higher taxes will affect profit margins. Total common dividends for this year will probably be under 1941 payments.
*Smith & Corona......	1.88	a	3.64je	3.75(3-9)	3.04(3-9)	4.50-5.00	1.00	C-2	Ordnance output will offset drop in regular lines. Moderate contraction in net income is probable. Further distributions on common are likely in final 1942 months.
TelAutograph.........	0.90	b	0.48	0.27(6)	0.20(6)	0.40-0.50	None	C-2	Services to war plants are believed to be supplying increasing portion of revenues. "Materials" situation satisfactory. Small disbursement on capital stock is possible before year-end.
Underwood-Ell.-Fisher..	2.60	c	5.10	0.87(6)	2.20(6)	3.00-3.50	1.00	B-1	Acceleration of war production features present operations, with complete conversion to war output indicated for early 1943. Profit margins will be lower. Further dividends expected, with 1942 payments under last year's total.

jl—Year ends July. mr—Year ends March. je—Year ends June. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. ★—Recommended for safe income. *—Recommended for income and appreciation.

when reconstruction and rehabilitation of long-neglected and worn-out equipment in a wide range of industries will be essential. Upon fulfilment of these requirements, there will arise the problem of disposal of such excess capacity not rendered useless by depreciation.

Ordnance Supplants Typewriters

Because of the peculiar nature of its operations, transformation of the office equipment industry to a war-production basis has been accomplished with a minimum of re-tooling and with comparatively little loss of time. This industry is ideally adapted to such equipment as fire control devices, small arms ammunition, primers, fuses, rifles and pistols, as well as parts for aviation instruments. Meanwhile, sales of principal normal lines for civilian and commercial purposes has been virtually terminated, with output of practically all of such items, such as typewriters, calculating and computing machines, adding machines and dictating machines, being taken over by the armed services and by other Government agencies.

During the period of conversion of operations to war work, International Business Machines Corp. enjoys the advantage of obtaining the major portion of income from rentals of leased equipment. This will provide continuing revenues for the company, notwithstanding the increasing importance of Government military business. From a rental standpoint, Pitney-Bowes Postage Meter Co. and TelAutograph Corp. are in somewhat similar position.

National Cash Register Co., leading concern in its field, has virtually stopped production of cash registers, although manufacture of such devices as accounting machines, for various Government and related services, is continuing. While no details with regard to armament business are obtainable, the company has stated that for a considerable period of time its entire tool-making

Position of Leading Railroad Equipment and Accessory Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
*Amer. Brake Shoe....	1.77	b	3.56	1.29(6)	1.66(6)	2.50-3.00	0.60	B-1	Operations are being aided by larger railroad demand, as well as increasing orders for munitions and for many other war equipment components. This year's dividends may not reach 1941 totals.
Amer. Car & Fdy......	2.75	a	5.23ap	12.09ap	....	....	A	C-1	Backlog, consisting chiefly of war orders, is at record levels. Higher taxes will cut fiscal year net income. Payment of declared common dividend has been blocked by preferred dividend arrears litigation.
Amer. Locomotive....	0.19	a	4.12	....	....	3.50-4.00	None	C-1	Orders, largely for armament, running close to half-billion dollars. Clearing of substantial preferred arrears will perhaps involve recapitalization. Common dividends are, of course, remote.
Baldwin Locomotive...	1.40	a	3.71	3.95(6-12)	0.75(6-12)	3.50-4.00	None	C-1	Capacity operations expected for duration of war. Taxes wil affect near-term earnings progress. Small distribution on common may possibly be made before end of 1942.
*General Amer. Transp.	2.04	b	3.75	0.60(3)	1.13(3)	2.00-2.50	1.00	B-3	Regular line has been supplemented by large war-component business. Heavier taxes have affected 1942 interim earnings. Additional dividends probable, with year's total under 1941 payments.
†General Rwy. Signal..	1.14	a	2.06	1.08(6)	0.14(6)	2.50-3.50	0.50	C-1	Despite higher costs and taxes, 1942 profits may surpass those of last year. Operations in all divisions are at high levels. Prospects favorable for common dividend payments possibly exceeding 1941 total.
*Lima Locomotive....	1.96	a	6.02	....	....	5.00-6.00	1.00	C-1	Tank output adding to activity of normal lines. Higher costs and taxes not expected seriously to affect 1942 earnings. Further dividends may bring year's payments above last year's cash total.
N. Y. Air Brake......	1.28	a	5.05	0.88(3)	0.88(3)	3.50-4.00	1.50	C-1	Armaments business constitutes larger portion of total orders. Increased expenses and taxes will hold profits below 1941 results. Additional payments on capital stock are probable later in year.
Poor & Co. "B".......	0.55	b	1.94	0.20(3)	0.38(3)	0.50-1.00	None	C-2	Heavy forgings orders from armament manufacturers are expanding. Larger taxes are preventing profit progress. $2.25 arrears on Class "A" preclude early consideration of common dividends.
Pressed Steel Car......	0.45	a	1.09	0.32(3)	0.16(3)	0.75-1.00	0.25	D-1	Orders for varied armament items are offsetting drop in freight car business. Tax levies will probably restrict net income gains. Payments on common stock are not indicated for early future.
*Pullman Inc.........	3.10	a	3.31	1.20(3)	0.79(3)	3.50-4.00	1.50	C-1	Company has large and diversified war orders. Sleeper operations have shown considerable expansion. Tax position is favorable. Increased regular or substantial extra dividends are probable before year-end.
Supérheater Co.......	0.61	a	1.81	0.58(6)	0.79(6)	1.50-1.75	0.75	C-1	Large excess profits tax depressed 1942 half-year earnings. Operations are expanding in various industrial fields. Dividend payments for year will probably be well under 1941 aggregate.
Symington-Gould.....	0.31	c	0.83	0.22(3)	0.24(3)	0.50-0.80	0.35	D-1	War production facilities are being augmented with Government aid. Restriction on freight car construction is adverse factor. Another moderate dividend may be paid in near future.
Union Tank Car.......	1.18	c	2.03	....	....	1.50-2.00	0.90	C-2	Seagoing-tanker shortage aiding operations. However, tax increases will doubtless impede profit progress. Strong financial position enables maintenance of current dividend basis.
Westinghouse Air Brake	0.73	b	1.91	0.35(3)	0.43(3)	1.25-1.50	0.75	B-1	Operations are practically 100% for war effort. Higher taxes affected first-quarter net. Although finances are strong, future dividend payments will probably be conservative.

A—Payment suspended by temporary restraining court order. ap—Year ends April. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. †—Recommended for appreciation. *—Recommended for income and appreciation.

facilities had been devoted to war production.

Although military regulations forbid publication of details with respect to the character or amount of direct war business, it is estimated that various office equipment makers hold such contracts somewhat in excess of \$300,000,000. Armament operations will be relatively less profitable than in the case of normal business, and taxes will be substantially higher, almost certainly resulting in at least moderate shrinkage in net earnings, on the average, for this industrial division during 1942.

Caterpillar
It is estimated that more than 50% of the manufacturing capacity of the major farm equipment concerns is devoted to war work—and that this will be increased to 80% by the end of 1942.

Cessation of hostilities and resumption of normal economic life will find a vast commercial market available to engross the facilities of the office equipment makers. Depreciation and obsolescence of typewriters, calculating machines, and all other types of essential office devices are proceeding apace, and demand for replacement and for expansion purposes will certainly be substantial. Operations of the business machine producers should, therefore, be comparatively little affected by the inevitable recession that will feature re-conversion to a peace-time basis.

Few industries have been more favorably situated for the achieving of partial transition to direct military production than the railway equipment industry. Conversion and rehabilitation of equipment, construction of new plants, and accelerated production of military materials have been accomplished, and are persisting, so that our fighting forces may be assured the guns, the tanks, and all of the other armament essential to an Allied victory. Moreover, all of these endeavors have proceeded contemporaneously with expanded production of supplies normally required by the American railroads.

It is estimated that over \$2,000,000,000 in prime and sub-contracts for war materials have been awarded the railway supply companies during the past three years by the Quartermaster Corps, the Navy and the Ordnance Departments. At the present time, the backlog for tanks, shells, castings, naval vessels and other vital military equipment is believed to be considerably in excess of \$1,000,000,000.

Builders of locomotives have been conspicuous in the production of equipment directly employed in military combat. Unfilled orders of American Locomotive, for example, are stated to be considerably in excess of \$400,000,000, consisting principally of such equipment as tanks, boilers, and gun carriages, while continued large production of locomotives seems assured for the remainder of this year. It is understood that this company will begin consideration of a plan to clear arrears on the preferred stock, following enactment of the pending tax law.

Baldwin Locomotive Co., which reports unfilled orders in the aggregate of \$332,000,000, as of June 30, 1942, is assembling tanks, railway and anti-aircraft gun mounts, ship propellers, armor plate, shell forgings, marine Diesel engines, and various other equipment for the fighting forces.

Delivery of steam locomotives by Lima Locomotive Works, Inc., during the first half of 1942 is understood to have approximated 90 units, several of which were for lend-lease purposes. The shovel and crane division is enjoying another active year, as is also the department devoted to production of machine tool parts. Military tank output is accelerating and will continue at high levels for the duration. Costs and taxes will be higher, but these may not seriously depress net profits for this year.

Armament as Well as Rolling Stock

Manufacturers of freight and passenger cars, and of other railroad equipment, are also securing substantial war orders, and companies such as Pullman-Standard Car Mfg. Co., American Car & Foundry, General American Transportation Co., and Pressed Steel Car Co., among others, are turning out tanks, howitzer carriages, trench mortars, bridge pontoons, demolition bombs, and other indispensable military equipment needed by our fighting forces and their allies.

General Railway Signal Co. is also profiting extensively from war-time considerations. Demand is rising for signaling equipment, both for original and for repair and replacement purposes, as a sequel to the high operating rates of the railroads. The so-called "educational" order for 75-millimetre shells for the Government has been completed, and shell machining and forging work is expanding. Notwithstanding (*Please turn to page 461*)

Position of Miscellaneous Companies

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
*American Can	3.18	c	6.45	....	....	NE	2.75	B-3	Production of armament items offsetting drop in general line output, though packers' can business remains high. Slight earnings decline probable for 1942. Regular dividends should be maintained.
*Amer. Chain & Cable	1.20	a	3.55	....	....	2.50-3.00	1.00	C-2	Practically all new business is connected with war effort. Profit margins satisfactory, but taxes may affect 1942 results. Payments on common may equal last year's distributions.
★Amer. Home Products	2.52	c	5.12	2.39(6)	2.73(6)	3.50-4.00	1.80	B-3	Domestic sales prospects satisfactory, although foreign business is being affected by tax and shipping considerations. Earnings and dividends for this year will doubtless be under 1941 figures.
Amer. Safety Razor	1.40	c	1.27	0.29(3)	0.15(3)	1.50-1.75	0.25	D-2	Public razor sales at virtual standstill as sequel to demand by armed forces. High taxes and exchange regulations restricting income from foreign sources. Dividend policy will continue conservative.
Archer-Daniels-Midland	2.54	a	5.69je	4.78(3-9)	2.88(3-9)	5.00-5.50	1.00	C-1	Sales outlook favorable in various divisions. Higher taxes may cause moderate reduction in current fiscal year's profits. Existing dividend basis will probably be maintained.
Artloom Corp	0.68	b	0.74	0.21(3)	0.38(3)	0.40-0.60	0.30	C-3	Carpet wool restriction is unfavorable factor, which may not be offset by higher output of blankets and duck cloth. Lower earnings expected for 1942. Conservative dividends indicated.
Atlantic Gulf & W. I.	1.55	c	15.37	0.87(5)	7.35(5)	NE	3.00†	D-1	Major portion of fleet chartered by W S A. Adjustment of charter rates will aid final half-year earnings. Small distribution on common probable before end of year.
★Bristol-Myers	2.20	c	3.56	1.03(3)	1.29(3)	2.75-3.00	1.10	B-2	Military and civilian demand will sustain 1942 sales. Company experiencing shortage in certain raw materials. Costs and taxes may affect year's results. Further distributions on capital stock expected.
★Brown Shoe	2.18	b	4.11oc	2.04(4-6)	2.25(4-6)	3.00-3.50	1.00	B-2	Narrower profit margins will result from price ceilings. Possible shortage of supplies affects longer-term outlook. No alteration in regular dividend rate is in prospect.
Celanese Corp	1.60	b	3.23	1.57(6)	1.54(6)	2.50-2.75	1.00	C-2	Benefits of expanded output and higher selling prices will be substantially offset by increased taxes. Moderate earnings recession probable for 1942. Further payment on common may be made later in year.
Champion Paper & Fibre	1.37	b	3.36ap	3.42(2-10)	2.59(2-10)	3.25-3.50	0.75	B-2	Contraction in magazine advertising and probably in circulation affects book paper sales prospects. Operating expenses are rising. Common dividends may be continued on present basis.
Chicago Yellow Cab	0.65	b	1.64	....	....	1.25-1.50	0.75	C-1	Operations being aided by restrictions on use of private automobiles. However, moderate drop in profits is foreseen for 1942. Regular dividends will probably be continued.
*Cluett Peabody	1.05	b	4.14	....	....	3.00-3.50	1.25	C-2	Large Government and civilian demand holding operations at high levels. Profits margins adequate, but taxes will depress year's earnings. Further payments on the common are anticipated.
*Continental Can	1.54	c	2.62	2.35(6-12)	2.88(6-12)	1.50-2.00	0.75	B-3	Output of containers for munition packaging is rapidly expanding. Paper box and packers' can sales also holding up. Costs and taxes will retard future earnings progress. Dividends may be continued on reduced basis.
Cont'l Diamond Fibre	0.60	b	1.99	0.33(3)	0.29(3)	0.50-1.00	0.375	C-1	Products in wide demand by numerous industries, principally in connection with armament program. Higher taxes may reduce year's profits. Increase in recent conservative dividend is possible.
Crown Cork & Seal	2.75	b	4.68	0.39(3)	0.56(3)	2.50-3.00	0.25	B-3	Increase in war materials and packers' cans output will offset drop in other lines. Policy of debt reduction may hold common dividends to comparatively low level for the balance of 1942.
Dresser Mfg. Co	1.40	b	3.02oc	0.89(1-3)	NF	1.50-2.50	0.75	C-2	Normal industrial demand satisfactory, while war materials output is rising. Moderate shrinkage in 1942 net income, however, is probable. Restricted dividends are likely because of working capital needs.
Electric Boat	2.85	b	3.76	....	....	2.00-2.75	0.50	C-2	Large naval contracts assure capacity operations for indefinite period. Because of advancing taxes and operating expenses, year's profits may not reach 1941 levels. Dividends will perhaps approximate last year's payments.
★Endicott Johnson	2.70	b	4.90nv	4.80(5-12)	4.88(5-12)	3.50-3.75	2.25	B-2	War orders should nearly counterbalance drop in civilian sales. Maximum price regulations and increased wage costs are repressing factors. Financial condition is strong, and regular dividends should be continued.
Gaylord Container	0.95	b	1.98	0.38(3)	0.26(3)	1.25-1.50	0.50	C-2	War demand for containers expanding, though civilian sales have declined. Moderate drop seen in 1942 earnings. Regular dividends, plus small extra payments on common will probably be continued.
General Outdoor Advg	0.24	c	0.92	....	....	NE	0.20	C-3	Restrictions on durable goods production will doubtless result in substantial reduction in 1942 revenues. Unpropitious outlook for new business reflected in recent omission of Class "A" dividend.
Glidden Co	0.97	b	3.08oc	1.08(4-6)	0.99(4-6)	1.50-2.00	0.80	C-2	Paint and chemical divisions are extremely active. Business in other departments satisfactory. Taxes may cause moderate drop in fiscal year earnings. Common dividends will probably be under 1941 payments.

Position of Miscellaneous Companies—(Continued)

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
Hat Corp	0.53	b	0.89oc	0.53(4-6)	0.19(4-6)	0.50-0.75	0.25	C-2	Government business may offset loss in civilian trade. New manufacturing process decreases dependence on rabbit fur. Further disbursements on Class "A" stock are uncertain for remainder of fiscal year.
Hollander & Son	0.62	c	0.87	....	....	NE	0.50	D-2	"Luxury" character of business and supplies factors render trade outlook uncertain. However, satisfactory financial status makes possible another small dividend before year-end.
Interchemical Corp	0.92	b	6.01	0.56(3)	0.68(3)	2.00-2.50	1.20	C-2	Decline in advertising and shortage of color ingredients are affecting printing ink sales, principal revenue source. Taxes have retarded 1942 interim earnings progress. Regular common payments may be maintained.
Inter. Mercantile Mar	....	b	d0.54	....	....	NE	None	D-3	Principal revenues now derived from Government charter of fleet, as well as from management of other vessels for Government. Distributions on capital stock do not appear to be in early prospect.
International Paper	1.10	b	6.37	0.72(3)	1.31(3)	2.50-3.00	None	D-3	Military and civil requirements assure high operating levels for indefinite future. Heavy taxes, however, are offsetting advantage of increased revenues. No dividends on common indicated for early future.
Kimberly-Clark Corp	1.68	b	4.72	1.52(6)	2.01(6)	2.75-3.00	0.75	C-1	Lower book paper sales, consequent upon nationwide advertising curtailment, are expected to be offset by increasing demand for company's specialty products. Extra dividend may be declared near year-end.
Lambert Co	1.20	b	1.81	0.95(6)	0.92(6)	1.25-1.50	1.125	D-2	Sales volume continues high in various lines. Packaging problem are being solved. Notwithstanding increasing costs and taxes, only moderate decrease seen in 1942 net income. Regular dividends should be maintained.
*Lehman Corp	....	a	1.25je	1.41je(12)	....	....	1.00	B-2	Company possesses widely diversified investment and speculative portfolio, with cash and Government issues amounting to 12% of total assets at the close of the recent fiscal year. Another extra dividend possible later in 1942.
Lehn & Fink Corp	0.80	a	1.39je	1.38(3-9)	1.25(3-9)	1.00-1.25	0.70	C-2	Sales may be slightly affected by curtailed luxury expenditures. Earnings outlook is satisfactory despite heavier taxes and expenses. Additional liberal dividend payments are probable.
Life Savers Corp	1.88	b	3.00	1.27(6)	1.35(6)	2.00-2.50	1.20	B-2	Company is favored with ample low-cost inventory. Federal sugar restrictions, nevertheless, may affect output in future months. Little alteration in earnings trend is expected for near future. Regular disbursements on common anticipated.
MacAndrews & Forbes	1.60	c	2.31	0.78(6)	1.22(6)	1.50-1.75	1.15	B-3	Movement of foreign licorice root inventories to United States believed increasing. Demand, particularly from tobacco trades, continues large. Taxes will reduce 1942 profits. Maintenance of reduced dividend basis seen for near future.
McGraw-Hill Pub	1.05	b	1.87	0.72(6)	0.93(6)	1.25-1.50	0.30	C-2	Continuing growth anticipated for company's various trade publications, with advertising sustained at recent levels. 1942 net may be somewhat lower. No change expected in prevailing dividend basis.
Mohawk Carpet Mills	1.50	b	3.62	....	....	1.50-2.00	1.50	C-3	Government orders for various textile items will greatly offset effects of restrictions upon use of carpet wool for normal business. Reduced profits probable this year. Further payment on common expected later in 1942.
Novadel Agene	2.20	b	2.08	....	....	1.50-1.75	1.00	C-3	Expiration of patent not expected to influence company's strong trade position. However, because of anticipated recession in 1942 earnings downward revision of dividend rate may occur before year-end.
Omnibus Corp	NE	c	0.41	d0.03(3)	d0.07(3)	0.10-0.25	None	C-2	Restriction on private automobiles is stimulating utilization of public transit facilities. Despite fair earnings outlook, resumption of common dividend is not likely in near future.
Powdrell & Alexander	0.45	b	1.02	....	....	NE	0.30	C-2	Government business is expanding. This may result in decreased shipments to normal consumers. Narrower profit margins seen for 1942, indicating more conservative dividend policy on part of company's management.
Pratt & Lambert	1.50	b	2.93	....	....	2.00-2.50	1.00	C-3	Considerable diminution in sales to normal consumers appears probable for future months. On the other hand, demand from military sources should aid in sustaining over-all volume. Earnings will be under 1941 levels, due to higher costs and taxes. Continued dividends on recent basis indicated.
Simmons Co	1.62	b	3.03	....	....	2.00-2.50	0.50	C-2	Demand for company's various products, particularly in fabrics division, is substantial, with large portion of hospital equipment and cots being taken by the Government. However, profits for year may be well under 1941 levels. Dividends may be maintained at current levels.
Sutherland Paper	1.58	b	2.85	1.22(6)	1.49(6)	2.00-2.50	0.60	C-2	Capacity is being augmented. Growing demand for paper cartons should continue for indefinite period. Only moderate decline anticipated in 1942 net income. Regular dividend rate will doubtless be retained.
Tennessee Corp	0.88	b	1.60	....	....	1.00-1.25	0.50	C-2	Sulphuric acid demand will be maintained at existing high levels, while superphosphate output will also remain substantial. Price situation is satisfactory. Taxes will shade earnings results for 1942. Continuance of recent dividend basis is probable.
Tex. Pac. Coal & Oil	0.85	a	1.33	0.46(6)	0.53(6)	0.50-1.00	0.30	C-2	Crude production may be affected by restricted drilling operations, as well as shortage of transportation facilities. Favorable factor is demand for casinghead gas and butane used in preparation of high octane gasoline and synthetic rubber. Regular dividends anticipated.
*Truax Traer Coal	0.72	a	0.92ap	1.86ap(12)	....	....	0.575	C-2	Earnings doubled in recent fiscal year. Increasing use of coal to supplant oil is constructive factor. Selling prices are higher. Despite higher expenses and taxes, profits should be well-maintained. Dividends for 1942 may exceed last year's payments.
Union Bag & Paper	0.48	c	1.70	0.60(3)	0.33(3)	1.00-1.50	0.50	C-2	Raw materials priority preference is aiding market for kraft wrapping paper and bags. Paperboard output is somewhat lower. Taxes and operating costs may moderately reduce year's earnings. Continuance of prevailing dividend rate is expected.

ap—Year ends April. je—Year ends June. oc—Year ends October. nv—Year ends November. †—Initial dividend paid Dec. 15, 1941. NE—No estimate. NF—Not available. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. ★—Recommended for safe income. *—Recommended for income and appreciation.

Stockholders' Forum

The Government Takes a Stand on Pension Abuses

THE chances are that instances of increased executive remuneration this year will be much less numerous than last year, and that the movement toward retirement-insurance or pension plans for highly paid company managers will be soft-pedalled. The "heat" has been turned on from several directions.

With many dividends being reduced and very few being raised, the great majority of stockholders—even those who believe a good top executive is worth his \$75,000 to \$150,000 a year—are highly and increasingly critical of *added* war-time executive benefits of any kind. Corporate managements by and large want to have the good will of shareholders—even though some have done too little to cultivate it—and certainly can't be impervious to strong stockholder sentiment.

There is also, of course, a political angle. While the President's idea that no individual should be permitted to retain an income of more than \$25,000 a year appears to have scant chance of becoming effective, it has tended to focus more public attention on executive remuneration. Then, too, the labor union leaders never fail to "take a poke" at managerial salaries and bonuses when arguing for wage increases. They are delighted with any war-time boost in executive remuneration because it gives them politically effective ammunition.

One provision of the tax bill recently passed by the House is almost certain to be retained in the final legislation. It can probably be taken as the beginning of Federal regulation of corporate pension trusts and retirement plans; and some such plans now in effect will have to be revised if payments to them are to continue to escape Federal income taxation. In brief, retirement plans must meet the following standards: (1) They must cover either 70 per cent of all employees with five years service, or all employees qualifying under a classification found by the Commissioner of Internal Revenue not to be based on favoritism for officers or other groups; and (2) the scale of benefits must not favor any particular group within the company. However, benefits based on a straight percentage of wages will qualify; and this would continue to permit relatively large benefits to high-salary officials.

Intelligent stockholders will undoubtedly view this latest development with mixed feelings. In the first place it will not meet the objections of the many shareholders who believe that either (1) highly paid executives ought to be able to provide for their own retirement at no expense to the company, or that (2) if retirement benefits are provided for top managers they should be limited to \$5,000 or \$10,000 a year. In the second place, this is a further step along the road of increasing Federal regulation of private enterprise—a trend about which many stockholders are more deeply concerned than they are over the internal problems involved in the relationships of managers to stockholders and vice versa.

Whether fair play for the millions of American investors is to be had from either the Government or company managements will necessarily depend in the final analysis upon the investors themselves. Publicity such as we are providing will do much good. Beyond that it remains to be seen whether investors, in sufficiently large numbers and with a sufficiently active interest, can provide themselves with a group voice that will command a respectful hearing. We intend to continue these efforts. Don't be dismayed if our problem of editorial space causes us occasionally to present this forum in every second issue, instead of in every issue.

"Good Pay for Good Management, But—"

"I take occasion to thank and congratulate you upon the fine work you are doing in connection with the interest of the forgotten people, i.e., common stockholders in American corporations. As a subscriber of your magazine, I have given particular study to the data presented in your Stockholders forum, and emphatically agree that it is time for those of us who own these corporations to organize and act in concert to protect what few rights we have left.

"I sincerely believe that good management is entitled to good pay, but at the same time the officials and directors are no more entitled to a retirement pension than are Congressmen. Moreover the Social Security provides rather substantial fund for these high officials—though, of course, not on the scale, perhaps, which they have been accustomed to.

"Until the last year or two I have always signed and sent in my proxies (there being about 18 of them), but this will not happen again until the stockholders are given some voice as to how our money is being spent.

"It seems very reprehensible to me that managements have not only tried to provide pensions for themselves, but at the same time to provide indemnification in event some lowly stockholder attacks their action in the courts.

"I will be glad to assist this movement in every way.

B. B. GREEVER
Wichita Falls, Texas

Stockholders' Forum

An Objective for Stockholders

"As a reader of your magazine I have watched with mixed reactions the development of the Stockholders Forum. It does seem shameful that much of the legislation enacted in Congress should be influenced so powerfully by pressure groups. However, we shouldn't kid ourselves, the only way to improve our status is by the formation of such a group, well organized and sufficiently numerous to exert the necessary influence. It means getting into politics with a selfish motive which will be a new experience for most of us. Never-the-less there seems to be no other out so the organization should proceed systematically and swiftly, not a loose national organization, but with a compact national group of officers and directors and subsidiary district or state groups.

"The aims of the organization should be formulated and expressed clearly and concisely, the main objective, as I understand it, being to improve the financial status and earning power and facilitate the distribution of earnings in all industry to the investors.

"I happen to have spent my mature years in the employ of corporations, although in the quite ordinary white collar class and while I am thoroughly in sympathy with the campaign to reduce the excessive salaries of corporation officials, this should be accomplished by the organization of investors and not through any Administrative or Congressional action. It is my belief that management would respond willingly to reasonable salaries with graduated bonuses for exceptional results. However the above and the matter of the qualifications of the directors are family affairs and as such will be ironed out by the organization of investors in executive session, i.e., stockholders meetings. The major activities of the organization would of necessity be almost entirely political in both district and national fields.

"On reflection it does seem that as investors we have been guilty of extreme foolishness. We elect as national leaders and members of the national legislative bodies, men who for years have consistently obstructed business and industry, collected heavy taxes from industry and gave it away in the form of subsidies to well organized pressure groups, and who have granted other groups subsidies in the form of power to enter industry and take over the functions of the men we, as investors, have employed to manage our properties. With a strong organization we should be able to remedy some of these evils, and eliminate much of the interference with business.

"It must be quite obvious to you, in view of some of the statements above that my name should not appear below, but I would be anxious and willing to contribute a fixed sum annually to support of this movement and to devote much time and effort in inducing my friends to support it."

A Reader for Twenty Years.

Group Pressure Wanted

"I am very much interested in your interest in stockholders, as all of my income is derived from such investments. Hence my interest is acute and I welcome any champion of stockholders. As I see the situation there must first be an aroused public interest as to the investors in preserving the integrity of their investments. Then an integrated willingness to make personal protection of our way of life.

"To get this we will have to do as the farmers and labor organizations have done, by making that object stand first.

"This cannot be accomplished until political prejudice is forgotten, and a voting block united regardless of POLITICS.

"Using the combined vote for the protection of a capitalist form of government, under which this country has grown to the most powerful nation on earth, and a higher standard of living yet produced in this world. Business must remain in the hands of business the government regulating only to the point of restraining the few unscrupulous business managers.

"In other words there will have to be found a mass of independent voters determined regardless of party; that can be depended on to vote for a constitutional government quite different from apparent New Deal objectives.

"There are around fifteen million stockholders, allowing for investors in more than one company.

"When an organization is ready I will be ready to join."

"I have been a member of American Federation of Investors started by Hugh S. Magill, non-profit. If the objects are the same both may be strengthened by joining hands (an observation only).

"Personally I appreciate your work and regard your position much stronger to influence such an organization."

Jno. A. Gaines, *M.D.*,
Tampa, Fla.

A Blast at Washington

"If corporations are reducing dividends, it is an example our Government would do well to copy. If they ask for proxies to safeguard the acts of their officers, its because under one-man government there is no telling 48 hours in advance what may confront them. If the average politician is worth 10 to 75 thousand a year, officers of the better managed corporations are worth millions to the country alone, if they never declare another dividend. Merely contrast what industry is doing at the moment, and what politicians are not doing.

"It's noticeable this stockholders' grievance crops up 10 years after we install a lifetime Administration. The same one that played up the point so profitably for its' own interest, and so disastrous for equity owners. The same one too, that was to 'cleanse out the undesirables, gamblers, money changers, and in fact, all but make over human na-

(*Please turn to page* 468)

FOR PROFIT AND INCOME

Where Spending Is Unrestrained

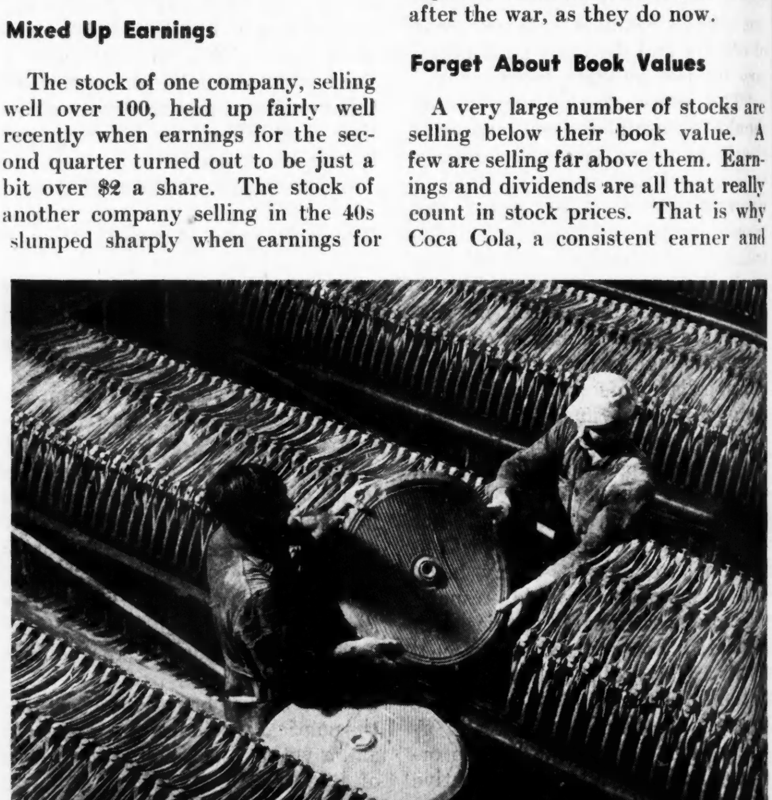
Checks and even prohibitions have been placed on public spending in many places. To buy a new tire, the president of one of the big rubber companies had to get a permit, and the sales manager of an automobile company was denied a permit for a new car because the local committee thought that his old one would still be useful for a long time. Other examples of these prohibitions to buying, because of wartime needs for the goods or the materials, are almost endless. Yet there are some places where not the slightest check has been placed on spending excepting the limits of supply. If you want them, you can get them anywhere and any time. These include soft drinks and ice cream, and some of the stocks of the companies making and selling these hot weather favorites have been acting well lately. Another place where you can spend to your heart's content is at the movies. Several of the moving picture stocks have made new highs in the past week or two. Earnings of various soft drink, milk and moving picture companies have been affected to some extent by high taxes, but most of these companies have a good position as to the amount of their earnings which are free from prospective excess profits taxes, and the balance remaining for shareholders in many cases is large, in relation to present prices of the stocks. Incidentally, it is hardly worth while devoting a separate paragraph to taxes. The situation in the universe of taxes has been utterly confused by the great difference of opinion existing between the Senate and House, within the Senate, and on the part of the Treasury heads.

Mixed Up Earnings

The stock of one company, selling well over 100, held up fairly well recently when earnings for the second quarter turned out to be just a bit over $2 a share. The stock of another company selling in the 40s slumped sharply when earnings for the second quarter of a little over $2 a share were made public. The stock of another company, selling about 13 went up only fractionally when earnings of near to $3 a share for the second quarter were published. The stock of a railroad on which earnings of over $4 a share for the second quarter were announced rallied fractionally over 13 on the news. It is a queer market, from the point of view of the relation of price to current earnings. But the reason is that vast change in industry is expected after the war, and the majority of stocks are selling more in relation to their long term outlook than to present income. Thus there are examples of stocks selling for less per share than is likely to be earned in 1942 because the long-term outlook is bad, and other stocks are selling 15 to 20 times their earnings per share because they are expected to earn as much, or more, after the war, as they do now.

Forget About Book Values

A very large number of stocks are selling below their book value. A few are selling far above them. Earnings and dividends are all that really count in stock prices. That is why Coca Cola, a consistent earner and



Clay pancakes—one step in making Westinghouse porcelain insulators.

dividend payer, sells many times its book value which is $5.76 a share. On the other side, we have examples of Houston Oil, selling at near 3 with a book value of $29.81 a share and Western Union Telegraph selling in the middle 20s with a book value of $173.02. The long-term earnings on the latter two have not warranted a price for the stock nearer to the book value.

Conversion Features of Preferred Stocks

Some Are Close to Where a Switch into the Common Would Be Profitable, Others Are Far Above Such a Basis Now, But Might Find Such a Basis in the Future.

	Conversion Rate for One Share Preferred	Recent Price Pfd.	Recent Price Com.	Price Common Should Be For Immediate Conversion	Current Annual Dividend Rate Pfd.	Current Annual Dividend Rate Com.	Earned Per Share on Common —Last Annual Report
Amer. Hide & Leather....	5 shares Com.	35	3	7	$3.00	....	$0.53
Chicago Pneu. Tool $3 pfd.	1½ shares Com.	35	13	23½	3.00	$2.00	6.15
Commercial Inv. Trust......	1½ shares Com.	110	21	73½	4.25	2.25	4.78
Crucible Steel............	2 shares Com.	66	27	33	5.00	1.00	12.96
Glidden................	7/10 share Com.	40	15	58	4.50	1.50	3.08
Goodyear Tire & Rubber...	2 shares Com.	85	18	42½	5.00	1.50	4.68
Lehigh Portland Cement...	4 shares Com.	106	19	26½	4.00	1.50	2.78
National Gypsum.........	4.35 shares Com.	71	4½	16½	4.50	0.40	0.94
Paramount Pictures........	7 shares Com.	118	16	17	6.00	1.00	3.36
Twentieth Century-Fox.....	1¼ shares Com.	23	11½	18½	1.50	0.50	2.04
Vultee Aircraft...........	2½ shares Com.	18½	7½	7½	1.25	1.00	2.95

Other conversion features of preferred stocks are: American Rolling Mill, one preferred for one common at $45; Armstrong Cork, one common for one preferred; Mengel Co., one preferred for three shares common; and United Aircraft, $40 in preferred for one share of common.

Big Earnings on United States Leather Issues

Fortune has smiled on the United States Leather stocks, for they have big earnings back of them for last year and this, despite heavy taxes. The company is principally engaged in the making of sole leather, and the demand for shoes for the armed forces has been enormous. Also, the civilian population has had money to spend, and one of the places where people who are employed at good wages increase their spending is on more shoes. Another windfall to the company is that it owns a vast amount of standing timber and the demand for lumber at high prices has increased. Furthermore, after the war, the men in the service will buy new shoes in many instances when they return to civil life and the reconstruction work planned for after the war will hold up prices and demand for lumber. In the year ending October 31, 1941, U. S. Leather earned $76.02 on its preferred stock per share, and in the first six months of this fiscal year earned $29.99 on the preferred. Dividends had been in arrears on the stock but $10.25 were paid on it in 1941 and $21 a share so far in 1942, leaving the accrued dividends $14.25 a share, with prospects that they will be cleared up soon. The preferred is followed by the "A" stock, which is entitled to $4 a share, non-cumulative, then may share with the common in $2 a share additional dividends. Earnings on the "A" stock after allowing for just the regular $7 on the preferred, were $8.30 a share in the last fiscal year and $2.92 a share in the first half of this fiscal year. There seem to be good prospects for a dividend on the "A" after the preferred arrears are cleared up. On the common, the speculative position is good, at recent low prices, for the 1941 fiscal year earnings were $1.66 a share, after allowing for the regular preferred and "A" dividends, with 35 cents a share earned in the first half of this fiscal year. The outlook for second half year earnings is for some increase over the first six months.

All Is Not Well in Foreign Earnings

Stocks of foreign companies which are traded in here have been weak for a long time, and some of them still seem to be working lower. Companies on the Continent in Europe have been severely hurt by direct war results. British companies are in a better position as far as operations are concerned, but have been damaged in their earning power by the high British imposts for national needs. A foreign company stock widely held in this country is British-American Tobacco American shares. While it has been making new lows, reflecting the fact that the company's subsidiaries all over the world have been operating "in the red," closed down, or are unable to send any of their profits, where they have them, to the parent company, it has had one source of revenue of importance. That is its American subsidiary, the Brown & Williamson Tobacco Company, maker of Raleigh, Kool, Wings, and Viceroy cigarettes and of Sir Walter Raleigh and other smoking tobacco. The outlook for British American Tobacco American shares after the war is much more favorable, but while the conflict lasts, it is not likely that dividends will be large. So far this year, only 19.9 cents have been paid per share on the American shares, compared with 54.8 cents a share in 1941.

Preferred Stocks Not for the Impatient

In engine clearances, measurements are in thousandths of an inch. It takes a very thin instrument to measure 1/1000th of an inch. This is just to illustrate how thin some things are. A different kind of "thin" applies to the market for many preferred stocks. In one day not long ago, six or seven different preferred stocks fluctuated from the previous sale by 3 or 4 points on 100 shares, and not long ago, a 100 share trade in a preferred stock resulted in a 9 point decline. Preferred stocks have had some of the biggest moves of any issues on the securities market in recent months, but they are often "hard to buy" in the sense that they are quoted many points between bid and asked and yet cannot be had below the offered price. And they are "hard to sell," because often there is no bid better than the one quoted and this may be points below the previous sale. Plenty of preferred stocks still have possibil-

(Please turn to page 465)

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

International Mercantile Marine

I hold 100 shares of International Mercantile Marine which I bought at 11. Would you advise averaging at present prices (around 8)? What is your opinion of this stock—considering all factors, such as the condition of the company, world trade situation, possibility of large-scale air freight transport in the near future, etc.? Will it break through its high of 12½? What is the present status of I. M. M.'s debt to the R. F. C.? Is further amortization planned for this year?—M. I. T. of Passaic, N. J.

The International Mercantile Marine Co. is a holding company. Its most valuable asset is its holding of the shares of the United States Lines Co. and its office building at One Broadway. Earnings of the U. S. Lines will result from charter of its 19 vessels to the Government, and also from fees from operating about 50 ships for the Government. We may be sure that all available methods of transportation, including air freight transport, will be used to capacity for the duration of the war. After the war we believe that air freight transportation will be used to supplement rather than supplant sea-borne traffic. In January the company paid $1,700,000 of its R F C indebtedness, and on June 19 it was announced that the company would pay $2,300,000 leaving a balance due the R F C of $7,469,000. We understand these payments complete R F C requirements for this year. This R F C debt was originally $11,469,000 and its rapid retirement is obviously strengthening the financial position of the company, though it is still burdened with a heavy consolidated deficit resulting from ten years operations at a loss. Owing to its capital structure the company should not find the new taxes especially burdensome. Current earnings, we understand, are running about the same as last year, before taxes. On the whole we are inclined to believe that this stock offers some speculative appeal for the duration of the war and possibly through the reconstruction period to follow. Thus future price movements doubtless will largely depend upon action of the war stocks generally. In deciding whether to add to your holdings you must consider the past history of the company and the ratio of your holdings to your entire portfolio. Unless you are willing and able to assume the obvious risks involved in a situation of this type, it might be advisable to confine new purchases elsewhere.

Washington Gas Light

I am asking for your advice again on my 100 shares of Washington Gas Light, bought at 18½. With increased demand giving this utility the most business it has had in years, are the prospects good? Or will higher taxes and other costs offset its gains and keep the market value of the shares at around present levels? Please give me a full appraisal of this stock, and advise what action I should take.—L. R. N., of Chicago, Ill.

Washington Gas Light Co. is an operating gas company. Serving Washington, D. C., and adjacent territories in Maryland and West Virginia, the company has experienced some of the capital's growing pains. This is evidenced by a growth in property account last year to $46,114,027, as compared with $42,492,767, at the end of 1940. This expansion has probably continued this year as the needed equipment was available. Gross revenues for twelve months to May 31, 1942 were $11,671,431 compared with $10,586,604 in the preceding twelve months but net income dropped to $1,086,879 compared with $1,278,116. These figures amount to $1.92 per common share against $2.37. The decrease in net earnings is due to a large increase in operating expenses and lesser increases in maintenance and taxes. The basic financial position of the company is sound. Funded debt is about half of the property value. However, the company has had to borrow from the banks in

(*Please turn to page* 468)

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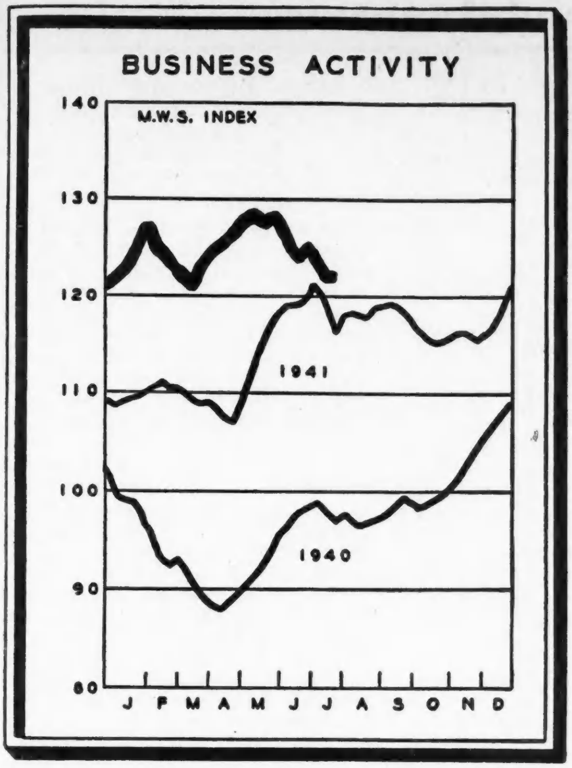

CONCLUSIONS

INDUSTRY—Ship and other war production hampered by steel shortage.

TRADE—Retail sales henceforward will compare unfavorably with last year's panic buying to anticipate scarcities.

COMMODITIES—Wheat and cotton futures at present follow the speculative party line closely.

MONEY AND CREDIT—Long term money rates on Government and corporate securities remain virtually immobile. Commercial loans decline.

The Business Analyst

A flurry in check payments was largely responsible for fractional improvement in per capita **business activity** last week; though somewhat better than normal seasonal gains took place in carloadings and electric power output. **Earnings** reports now coming in for the half year and second quarter are unusually mixed in character. Not a few companies, among which the rails are most conspicuous, disclose improvement over last year; but the majority, notably steels and motors, made a poor comparative showing after sharply higher reserves for taxes and post-war contingencies. The first 64 industrials to report for the second quarter reported a decline in net profits of 4.8% from the first quarter of the current year and a drop of 15.7% below the second quarter of 1941. For the half year, 100 industrials reported a decline of 26% below the like period of 1941. **Dividends** declared during June averaged 8% below last year, against a six-months' decline of less than 1%.

* * *

WLB in the "little steel" wage case has laid down the principle that "workers in groups" (meaning union labor) are entitled to wage increases proportioned to the rise in living costs since January 1, 1941. In other words, **organized labor is not expected to sacrifice**

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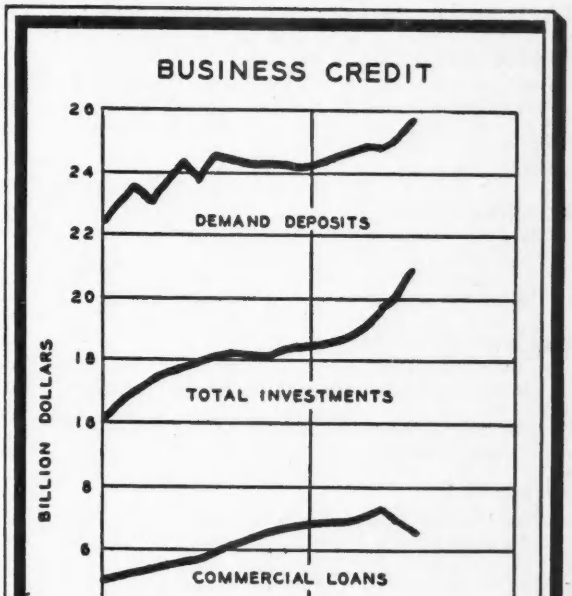


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	June	180	176	159
INDEX OF PRODUCTION AND TRADE (b)	June	114	113	112
Production	June	123	120	115
Durable Goods	June	137	131	122
Non-durable Goods	June	112	111	111
Primary Distribution	June	132	132	114
Distribution to Consumers	June	83	85	104
Miscellaneous Services	June	117	116	102
WHOLESALE PRICES (h)	June	98.4	98.8	87.1
COST OF LIVING (d)				
All Items	June	97.3	97.3	88.5
Food	June	99.5	99.1	85.5
Housing	June	91.0	91.1	88.2
Clothing	June	88.1	88.6	73.6
Fuel and Light	June	90.4	90.5	86.7
Sundries	June	104.1	104.2	98.6
Purchasing Value of Dollar	June	102.8	102.8	113.0
NATIONAL INCOME (cm)†	May	8,656	8,802	7,092
CASH FARM INCOME†				
Farm Marketing	May	988	982	947
Including Gov't Payments	May	1,025	1,097	771
Prices Received by Farmers (ee)	June	152	152	119
Prices Paid by Farmers (ee)	June	152	152	132
Ratio: Prices Received to Prices Paid (ee)	June	99	100	92
FACTORY EMPLOYMENT (f)				
Durable Goods	May	144.2	144.1	139.9
Non-durable Goods	May	111.6	113.1	110.4
FACTORY PAYROLLS (f)	May	192.6	186.6	144.1
RETAIL TRADE				
Retail Store Sales $†	Apr.	4,464	4,340	4,626
Durable Goods (a)	Apr.	103.5	108.4	166.2
Non-durable Goods (a)	Apr.	147.7	148.9	127.7
Chain Store Sales (g)	June	171	170	133
Retail Prices (s) as of	Apr.	113.4	112.5	95.5
FOREIGN TRADE				
Merchandise Exports†	Apr.	$682	$609	$385
Cumulative year's total† to	Apr.	2,249	......	1,372
Merchandise Imports†	Apr.	234	272	287
Cumulative year's total† to	Apr.	1,014	......	1,018
RAILROAD EARNINGS				
Total Operating Revenues★	Apr.	$572,531	540,300	375,008
Total Operating Expenditures★	Apr.	366,755	360,140	274,938
Taxes★	Apr.	88,592	75,532	37,040
Net Rwy. Operating Income★	Apr.	102,034	92,388	52,074
Operating Ratio %	Apr.	64.06	66.66	73.32
STEEL				
Ingot Production in tons★	May	7,387	7,122	7,045
Pig Iron Production in tons★	Mar.	5,113	4,458	4,704
Shipments, U. S. Steel in tons★	June	1,774	1,834	1,668
GENERAL				
Paperboard, new orders (st)	May	428,778	495,547	572,522
Construction Contracts†	May	$673	$498	$548
Cigarette Production†	June	20,003	18,455	18,522
Bituminous Coal Production★ (tons)	June	48,410	48,250	43,319
Portland Cement Shipments★ (bbls.)	June	16,022	16,349	15,223
Commercial Failures (c)	June	804	955	970

PRESENT POSITION AND OUTLOOK

(Continued from page 457)

its living standards. Consequently the unorganized section of our population must shoulder all the burden. The great injustice of the present political handling of the situation may be grasped by considering the cases of two fairly typical families. Family A, consisting of beyond-middle-age husband and wife, lives solely on the husband's $30 clerical job. Family B—consisting of father, mother, son and daughter—also had an income of only $30 on Jan. 1, 1941; but since then father, mother and son have each found war work in a union shop at $40 a week. On the basis of Jan. 1, 1941, neither family paid an income tax.

* * *

Under the new tax proposals, family A will pay $48 and family B about $730 in income taxes. Meanwhile a 15% rise in living cost has taken an additional $189 from family A and $690 from family B. Thus within the brief period of 16 months family A's living standard has dropped $237, or 16%, while family B's living standards have risen by $3,080, or 215%. Multiply this $3,080 by 10,000,000 and you have the $30 billion in **excess purchasing power** which worries Mr. Henderson.

* * *

Congress, passing the buck to President Roosevelt, refuses to tackle the inflation menace with economic realism until after the elections. It is one of the glories of democracy in times of peace that men are free to better themselves economically; but all should sacrifice in the present crisis. The only effective and equitable way to mop up exess purchasing power and **avert inflation** is to levy an **excess profits tax** on the increase in family incomes over pre-war standards. A sales tax would hit family A hard, without recapturing much of the excess purchasing power of family B.

* * *

The fact that **wholesale prices** have remained virtually stationary during the past three months has tended to allay fears of **inflation;** but the explosion has been merely delayed, while accumulated inventories of scarcity goods are being used up. Price ceilings must be pushed up eventually if costs and public purchasing power continue to rise.

* * *

According to the National Industrial Conference Board, total **employment** at mid-May, including men in the armed services, reached a new all-time high at 55.3 millions. WPA estimates that there was a further jump of 1.7 million between mid-May and mid-June. President Roosevelt places the present number in our armed forces at around 4 million. **Payrolls** were $12 billion larger last year than in 1940; but interest and dividend payments rose only $431 million. Senator Vandenberg states that confiscating of all individual incomes above $25,000 would finance the war for only 4 days and 10 hours.

* * *

Department store sales in the week ended July 18 were 5% larger in dollar total than for the like period of 1941, compared with gains of

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	July 25	122.8	122.7	117.8
ELECTRIC POWER OUTPUT				
K. W. H.†	July 25	3,625	3,565	3,220
TRANSPORTATION				
Carloadings, total	July 25	855,522	857,067	897,564
Grain	July 25	46,333	51,558	55,281
Coal	July 25	162,287	163,557	168,851
Forest Products	July 25	54,134	53,482	47,431
Manufacturing & Miscellaneous	July 25	390,134	385,872	368,104
L. C. L. Mdse	July 25	87,587	87,364	156,022
STEEL PRICES				
Pig Iron $ per ton (m)	July 30	23.61	23.61	23.61
Scrap $ per ton (m)	July 30	19.17	19.17	19.17
Finished c per lb. (m)	July 30	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	July 30	98.3	98.7	97.6
PETROLEUM				
Average Daily Production bbls.★	July 25	3,690	3,713	3,869
Crude Runs to Stills Avge, bbls.★	July 25	3,658	3,582	3,932
Total Gasoline Stocks bbls.★	July 25	82,281	84,069	85,073
Fuel Oil Stocks bbls.★	July 25	77,816	77,230	91,446
Crude—Mid-Cont. $ per bbl	July 31	1.17	1.17	1.17
Crude—Pennsylvania $ per bbl	July 31	2.55	2.55	2.23
Gasoline—Refinery $ per gal	July 31	0.117	0.117	.085
ENGINEERING CONSTRUCTION				
Volume★ (en)	July 30	$259,800	$148,171	$173,094

PRESENT POSITION AND OUTLOOK

1% for four weeks and 13% for the year to date. Comparisons with last year for the next 10 months will suffer because of panic buying of scarcity goods a year earlier.

* * *

Though **steel** ingot capacity on June 30 was about a million tons greater than the 88.6 million tons reported on January 1 and the more than 90 million expected by the year end, shortages are slowing war production at many plants. W P B has ordered a 40% cut in expansion plans for the **electric industry**, which may lead to power rationing next year, and Chairman Land of the Maritime Commission states that steel plate shortages are holding **shipbuilding** to 50% of capacity while sinkings continue to far exceed launchings.

* * *

A serious shortage of **fuel oil** looms for the Atlantic seaboard next winter, which may lead to rationing before mid-September and a further reduction in gasoline supplies. Nation-wide consumption of **gasoline** is now 12% below last year. O P A plans to rescind recent price advances on gas and oil; substituting a subsidy.

* * *

Cigarette production June, at 20 billion, reached a new monthly high without counting huge tax-exempt Government purchases and exports running into hundreds of millions.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (en)—Engineering News-Record. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

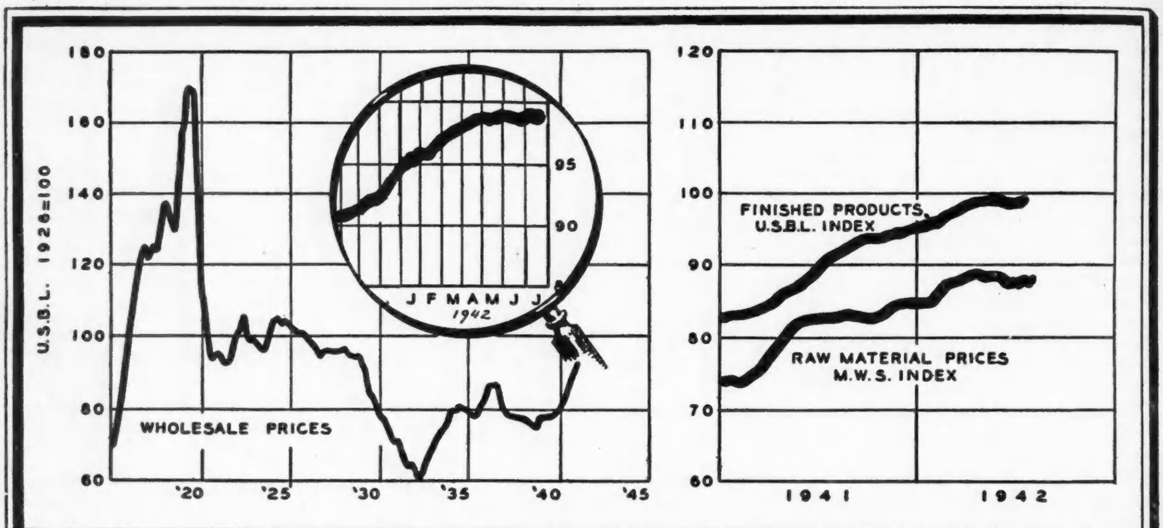
No. of Issues	(1925 Close—100)	1942 Indexes High	Low	July 25	Aug. 1
270	COMBINED AVERAGE	48.6	41.4	45.1	45.2
3	Agricultural Implements	88.0	72.7	85.6	84.6
9	Aircraft (1927 Cl.—100)	172.6	123.8	131.9	131.5
4	Air Lines (1934 Cl.—100)	256.7	178.4	241.3	256.7A
5	Amusements	35.1	27.0	34.0	35.1C
13	Automobile Accessories	79.3	70.4	74.3	75.9
13	Automobiles	9.7	7.1	8.7	8.7
3	Baking (1926 Cl.—100)	6.1	5.0	5.8	5.9
3	Business Machines	108.4	81.7	105.5	106.0
2	Bus Lines (1926 Cl.—100)	64.6	38.2	49.8	51.2
6	Chemicals	156.3	126.3	139.9	140.8
14	Construction	19.6	16.4	17.9	17.6
5	Containers	163.1	138.4	156.5	154.6
8	Copper & Brass	75.1	58.6	63.6	62.9
2	Dairy Products	28.6	25.5	28.3	28.6B
6	Department Stores	16.3	12.4	13.6	13.6
6	Drugs & Toilet Articles	43.5	37.1	40.5	41.8
2	Finance Companies	132.4	99.5	127.7	130.7
7	Food Brands	78.6	60.6	69.5	68.4
2	Food Stores	43.7	32.2	37.7	37.5
4	Furniture	29.1	23.7	29.0	29.1
2	Gold Mining	455.9	315.4	385.7	388.0
6	Investment Trusts	16.5	13.8	16.1	15.8

No.	(Nov. 14, 1936, Cl.—100)	1942 Indexes High	Low	July 25	Aug. 1
100	HIGH PRICED STOCKS	51.96	43.20	47.81	47.80
100	LOW PRICED STOCKS	38.78	31.66	35.00	35.04
3	Liquor (1932 Cl.—100)	173.4	137.5	167.8	173.4C
8	Machinery	83.8	67.9	74.2	73.7
2	Mail Order	56.1	45.2	56.1	55.4
4	Meat Packing	46.0	29.7	30.3	29.7k
9	Metals, non-Ferrous	131.7	100.0	105.6	103.9
3	Paper	11.3	9.1	9.5	9.4
21	Petroleum	74.6	59.8	68.8	68.1
16	Public Utilities	19.1	13.8	14.5	14.3
3	Radio (1927 Cl.—100)	8.8	5.9	8.6	8.7
7	Railroad Equipment	37.9	28.6	30.7	30.6
16	Railroads	9.9	7.6	8.8	8.9
2	Realty	1.9	1.3	1.6	1.7
2	Shipbuilding	112.0	84.2	88.5	88.1
12	Steel & Iron	65.0	53.1	56.2	56.2
2	Sugar	40.1	26.5	29.4	29.7
2	Sulphur	179.4	137.5	160.7	158.0
3	Telephone & Telegraph	41.1	30.6	38.2	37.9
2	Textiles	34.2	24.4	27.8	29.6
3	Tires & Rubber	11.9	7.9	11.8	11.9
4	Tobacco	55.3	40.7	52.0	52.0
2	Variety Stores	187.2	147.7	175.6	177.9
19	Unclassified (1941 Cl.—100)	109.9	90.8	100.3	100.5

New HIGHES since: A—1941; B—1940; C—1939. k—New LOW since 1933.

Trend of Commodities

Wheat prices declined to a new seasonal low levels last week, due to mild liquidation and a lack of confidence on the part of buyers. September delivery went to $1.16 a bushel, or about 16 cents under the current government loan price, and about 21 cents under the January high. Although hedging pressure against Winter wheat has let up, the unfavorable trend in the current Russian war news and anti-inflation war talk has apparently induced many holders of future contracts to retire to the side line position. The cotton market also continued to lose ground in the same period. In New York contracts showed net losses of 44 to 51 points. Trade demand is generally apathetic, as mill buying continues restricted. Both commodities are coming freely to market and held in stock in quantities sufficient to bear down prices. The same is true of other farm products, yet the public is now beginning to feel shortages of food and goods. This condition arises because the nation is beset with enough "special interest" political pressures, and group movements to aggravate the natural difficulties produced by war. U. S. food output for 1942 is expected to be 9 per cent above 1941, and to exceed the 1935-39 average by 25 per cent.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1929, equal 100

	July 31	July 24		July 31	July 24
28 Basic Commodities..........	166.5	166.4	Domestic Agricultural	180.1	180.0
Import Commodities	163.2	162.9	Foodstuffs	184.4	184.0
Domestic Commodities	168.6	168.7	Raw Industrial	154.0	154.2

Commodity Briefs

Wheat. Wheat supplies in the United States for the 1942-43 marketing year will total 1.524 billion bushels according to Department of Agriculture estimates. This marks an all time high, and about in line with trade predictions. With domestic consumption forecast at 725 million bushels, there will be nearly 800 million bushels available for export and carryover on July 1, 1943. This amount is about 150 million bushels above a similar nature supply in 1941-42.

Cotton. Current reports of the Commodity Credit Corporation indicate a very sharp decline in the rate cotton loan repossessions, especially during the past two months. The recession in cotton prices over recent weeks is probably primarily responsible for the softening in the demand for loan cotton. Repossessions up to June 20 were 54 per cent of the total 1941 loan entries, and stocks remaining in Government loan totalled 1.026 million bales. Due to the decline in repossessions a carryover into next season of about 1 million-bale loan stock is now anticipated.

Wool. Several factors contributed to a dull market for domestic wools during June. Mill stocks of foreign wools were relatively large, while domestic wools contracted for earlier were arriving East in large quantities. Stocks on hand appear large enough to meet manufacturing needs for some time, with civilian consumption limited by conservation measures. Wool prices have receded slightly. The average price received by farmers was 39.7 cents per pound, June 15, compared with the peak of 40.2 cents on May 15.

Lard. Domestic demand for lard remains fairly good, with ceilings being bid the past week for futures. Most of the current output is being taken by the Government. Brokers anticipate that a further small reduction will be reported in reserve stocks shortly.

Cocoa. The trade holds to the opinion that consumer demand will take all available stocks before the new Bahai and other crops are available. Stocks as of July 28 were 591,520 bags, compared with 1.466 million bags a year ago.

Butter. The increase in commercial stocks of butter during June was less than usual for the month. On July 1 these stocks were 7 million pounds smaller than on the same date in 1941. Butterfat prices are likely to increase during the remainder of the year. During the same period an increase of between 5 to 10 per cent may be expected in creamery butter production.

War Remaking Industrial America

(*Continued from page 429*)

products from available raw materials. New processes which use such strategic materials as plastics (cannot be manufactured without formaldehyde), alcohol (needed in the production of smokeless powder), nonferrous metals and steel, will be difficult to use.

From time to time shortages will develop in seemingly inexcusable places and in should-be-plentiful commodities. Recently, for instance, there was a shortage of sage which can be produced anywhere in the United States, because we had come to be dependent on the sage output of Southern Europe to a large degree. The price of sage advanced from 16 cents to $1.65 a pound. Here the law of supply and demand is rapidly correcting the situation, for American farmers have planted a most unusual acreage of the kitchen herb.

The land of automobiles, modern plumbing, universal refrigeration, central heating, well-dressed women, plentiful tables and no shortages of anything, is headed into a period of unpleasant and revolutionary retrogression. Like other nations engaged in a huge war effort, the people of our country are going to be called upon to accept a lower standard of living. There is no way to avoid it until the hordes of Hitler and Hirohito are conquered. There can be no abundance in America so long as we produce such a huge volume of non-consumable goods to destroy our enemies. After our enemies are destroyed there will be a huge accumulated deficit of consumption goods to be wiped out and business should be good for years.

In the meantime there are at least a few industries which appear likely to go untouched; in fact they may even be stimulated. The outstanding one is the amusement industry. The experience of England, France and Australia, and our own experience to date, is that war conditions create an enormous demand for entertainment and diversion which cannot be satisfied through automobile trips, vacations and visits at far flung places. The motion picture business is good and is going to be better. It has no insurmountable raw material problems and is a favored war industry because it is judged to build up or maintain national morale. There will be a large demand, no doubt, for amusements, liquor, tobacco, cheap cosmetics and the cheaper types of clothing. Rough clothing for workmen such as overalls and dungarees should experience a boom. As in 1916-1918, the farmer will be on top regardless of parities and legislation; but the farmer will be harassed with a labor shortage such as he has never known, and he may have trouble buying enough labor-saving machinery.

All of these things will test and temper the morale of the people. We have been too soft not only in our living, but in our attitudes. However, we Americans who now face contributing the lives of our loved ones, risking all our savings and placing future economic security in jeopardy, certainly need not flinch from the inevitable discipline imposed by hard economic necessity.

Profit and Dividend Outlook for Machinery and Equipments

(*Continued from page 449*)

the impact of substantially higher taxes, this organization reported net income of $1.08 per share of common for the first six months of 1942, compared with only $0.14 per share for the corresponding months of 1941.

The freight and passenger rate increases granted the railroads earlier this year have been of considerable assistance, particularly to the Eastern transportation systems, in facilitating the cost of equipment purchases.

One difficulty with which the railroad equipment makers have had to contend, particularly in the car building and accessories divisions, is insufficiency of raw materials. Orders held by private companies, as of July 1, 1942, for which materials had been allocated by the War Production Board, amounted to only 9,100 freight cars. In addi-

tion, these concerns held contracts for over 30,000 cars, construction of which was suspended by Government order. During the first half of this year, deliveries of freight cars for domestic and foreign service amounted to 42,500 units. Normal operations of accessory companies which derive from freight car production have been similarly affected, but war orders have proven a compensating factor.

Locomotive builders have been more fortunate in securing adequate supplies of raw materials, and it is estimated that about 400 engines for domestic railroads, in addition to a considerable number for lend-lease purposes, will be completed during the present half-year.

Revenues of the equipment makers will unquestionably exhibit expansion for the final six months of this year, but with few exceptions net results will be less favorable. Profit margins on Government business, which comprises an increasing proportion of total production, is narrower than those obtained from private contracts, while taxes will be higher (although in some instances substanial invested capital exemption bases will prove a mitigating factor).

Although plant extension among the railroad equipment companies has not been particularly great, readjustment to a peace-time basis of operations will in all likelihood witness contraction in operations, coevally with the inevitable recession in railroad earnings. In the case of the car builders and accessory makers, the transition may be less abrupt, because of the need for supplying accumulated requirements for new and rehabilitated rolling stock.

Gauging the Impact of the Inevitable Inflation

(*Continued from page 426*)

production of civilian goods had reached a level 27 per cent above the average of 1935-1939. In June of this year, production of civilian goods had declined to a level 11 per cent *under* the average of 1935-1939. In the meantime total consumer income had risen to new all-time highs—with a total of some $108 billions indicated for 1942, against $90.4 billions last year and $80 billions in 1929.

There are two important reasons why we are not already experiencing a more dynamic inflation. (1) There are still substantial inventories of goods previously accumulated by merchants: (2) consumer demand has been temporarily moderated by reaction from first-quarter "stocking up" rush and by initial public confidence in the price ceilings.

But there is only one way consumer goods inventories can go from here and that is down. Current production of consumer goods, as above indicated, is already well down from a year ago and will, of course, go still lower. By the end of the year, total supply of consumer goods—including inventories from past production —probably will be at least 25 per cent under 1941 levels. There will be further reduction in 1943 as additional materials—and more especially labor—are diverted to war production.

Since output of consumers' durable goods has already been virtually eliminated, it is not possible that further contraction in the total of consumer goods can equal the drop of 38 points from 127 in June 1941 to 89 in June this year. But when one notes that the 89 index for June compares with total production of 75 for 1934 and 69 for 1933, it can be realized that contraction of consumer goods supply to a depression level close to that of 1934 or 1933 is more probable than otherwise. A further contraction equal only to one-third that of the past year would put consumer goods output back virtually at the level of 1934.

While consumer goods supply is heading for a 1934 depression level, consumer income is already some 65 per cent above the average of 1935-1939 and by early 1943 will be at least 75 per cent above this pre-war average. The great bulk of the gain is due to swollen industrial payrolls, and secondarily to greatly increased farm income.

The simplest and most effective anti-inflation program would be to "mop up" at a minimum an additional $15 billions a year of consumer income through consumption-reducing taxes—hitting the lower-income masses who buy some 80 per cent of total output of consumer goods—and/or a compulsory war-bond savings plan. This would, however, also be the most painful (and politically difficult) decision to make.

The only possible alternative would have to be strict rationing of all main types of consumer goods. You don't see prices of tires or sugar going up, because consumers can buy only specified amounts—regardless of their purchasing power. The same would be true of more general rationing. The disadvantages would be cumbersome and costly administrative problems and great multiplication of the dangers—already not inconsiderable—of "black markets" springing up. The more policing, and squabbling, among ourselves on the home front, the less of our energies can be concentrated where they belong: in fighting the war.

The odds are that the answer by next winter or spring will be a compromise — more taxes but not enough, compulsory savings but not enough, more rationing but with many exceptions, more inflation but not unlimited. The visible crumbling of the price ceilings might do some good—by spurring Congress to adequate and fundamental action. We are not "saved" merely because they now exist. We will not be ruined if they break down. Like all opiates, they merely dull our senses. Other and much stronger ramparts against inflation—which would make real price ceilings feasible—are available to us any time the gentlemen down at Washington can get around to erecting them.

For Profit and Income

(*Continued from page 455*)

ities for market advance. Those who purchase them for market profit, however, must be prepared to wait for the right market time to take such profits. Thus if a stock bought at 50 might offer hopes of a 10 point profit, the buyer must either have his order in at 60, good until cancelled, or be prepared to wait for the bid to get there. Impatient people will find preferred stocks much more trying on the nerves than most common stocks.

A New Activity for Evans Products

Many of the companies identified with the motor car industry have shifted to new lines of work directly aiding the war effort. Evans Products, with few motor cars to load, has gone into a very valuable and profitable work of increasing the loadings of general freight on freight cars. This has been accomplished through its devices for putting shelves in the car, which adds much to the storage space used. This company earned $1.87 a share in 1941 and has a good outlook for around that figure this year. Another dividend of 25 cents a share is expected later in the year, and at present low prices for the stock, this would make a good yield. After the war, the company should have a good income again from its auto loading business.

Railroad Shares Still Lead

Railroad stocks have continued to be relatively stronger than the rest of the market for several weeks. The percentage advance, as a whole, has been more consistent. It must be remembered that point advance in rail averages is equal to 4 in the industrials, on recent levels of just around 26½ in the rail averages and 106 in the industrials. Some of the railroad earnings so far in 1942 have been the best on record and others the best since 1929. It seems to be almost certain that some other "surprise" dividends will be forthcoming on rail shares in

the next few months, although why there is any surprise if a railroad earning $8 to $10 a share this year on its stock should pay $1 or more in dividends, is hard to understand. The directors know that their shareholders have been hungry for dividends, and will pay some, unless there are urgent needs for funds elsewhere. Among recent additions to the Southern Railway preferred, New York Central and New York, Chicago & St. Louis preferred "expectant-of-dividends" list is Southern Pacific, on which 1942 earnings may be as much as $15 a share.

Market in Decisive Phase

(Continued from page 423)

in many years in which an underlying bear market trend was confirmed and renewed after Labor Day. Since there is no present basis for conviction that a major upward trend—as distinct from an intermediate recovery—has set in, most market observers are now inclined to view the post Labor-Day prospect with much skepticism. That seasonal landmark is near enough to be worth thinking about—but, at least until we have a chance to see more of the technical evidence over some of the remaining interim, we think it just as well to reserve judgment.

However, just to do a bit of thinking out loud for the moment, isn't it quite possible that the war news and the tax news may be at their blackest this summer and possibly into early autumn and that in the closing months of the year it will develop that our worst fears have not been realized?

We were duly warned by all responsible officials that the 1942 period of summer and autumn would be a most trying one. It is—and the market is taking it in excellent form. Perhaps the reason may turn out to have been that the consensus of investors and traders, beginning in the middle spring, was that Hitler's maximum effort of 1942 again would not be enough—and that the end of the year would find the vision of United Nations' victory much brighter and stronger than it had been at the start of the year.

Monday, August 3.

Market Evaluation of War Earnings and Dividends

(*Continued from page* 439)

normal, profits on war business, which can return to normal operations with no undue difficulty after the war and for which the deferred civilian demands of the war period will build up an accumulated post-war consumer market. The remaining class, of which Loew's and Cluett, Peabody are good examples, may be called "business as usual" stocks.

It will be noted that a relatively low valuation is put on all earnings which are larger than normal, with "normal" approximated by the average of past peace years; and that, conversely, a relatively high valuation is put on earnings of seasoned equities which are lower than "normal."

And while the *average level* of price-earnings ratios is lower than normal, as it always is in war—it was even lower during most of World War I than now—it will be noted that variations between individual stocks today tend to follow rather closely the similar discriminations made in peace-time. One column of the tabulation shows recent prices in ratio to estimated 1942 earnings per share, the other column shows the same price in ratio to average earnings of the pre-war years 1936-1939.

Answers to Inquiries

(*Continued from page* 456)

order to finance current expansion, with the expectation of repaying these loans through the sale of preferred stock. This fact, combined with a poor current asset position shown at the year end, might well lead the directors to consider the advisability of reducing the recent dividend rate of $1.50 per year. Inasmuch as the stock is selling at depressed levels, however, we should not be inclined to liquidate at this time, nor would we add to our holdings. If a substantial rally should approximate your cost you might consider lightening up, although such future action must naturally be governed by conditions affecting the company at the time.

International Tel. & Tel.

I bought International Tel. & Tel. at 25 some years ago. I have 125 shares which have dropped as low as 1¼, but continued to hold, feeling that the company should be able to capitalize on its expanding South American ventures—offsetting the adverse aspects of the prospects in other parts of the world at war. Will you please advise me what the outlook for I. T. & T. is now . . . whether improvements in earnings shown for the first quarter of 1942 are continuing . . . what new plans are being laid to improve its position? What are its speculative possibilities?—A. M. A. of New Haven, Conn.

International Tel. and Tel. has issued no earnings statement since that of the first quarter, hence we have no way of knowing whether the slight improvement shown then has been maintained. However, the company has been buying its debentures in the open market for some time. From January 1 to June 25 this year, $1,718,000 of its 4½% debentures and $566,000 of its 5% debentures have been purchased in the open market. On May 7 Secretary of Commerce Jones announced that the Export-Import Bank had authorized a credit of $25,000,000 to the company to buy its debentures at 50% of face value. If the company decided to pay over this price it could do so, after applying to the Bank for permission, using company funds to make up the difference. The new loan was obtained at 4% and the extent to which it can be used to retire double the principal amount outstanding at 4½% and 5% will give an indication of the amount of savings possible. Our government is committed to the protection and development of the countries to the south of United States, and we understand that steps have already been taken to facilitate transfer of funds. One of the greatest difficulties of American companies operating profitably subsidiaries abroad has been to bring the earnings home. So much for the favorable side of this interesting speculation. On the unfavorable side we must list the difficulties of all telephone companies to obtain equipment even for repairs, to say nothing of expansion during the war years. Of course International itself is a large producer of telephone and radio equipment and presumably it is now receiving a large volume of war business. While the common stockholder can hope for no early return on his investment, the longer term prospect seems to justify a degree of confidence and continued holding on a price basis seems the best course to follow.

Stockholders' Forum

(*Continued from page* 453)

ture. Yet we find in high places and low, the greatest conglomeration of political parasites ever teamed up back of one man. Not a law can be passed if they disapprove. They elect or reject our lawmakers at their pleasure, and at expense of public purse. Is it any wonder so few of them know what the laws they vote for are all about, and that fewer could interpret, or carry out their provisions? Take the tax laws as an example, and the instruction sheets the country has been flooded with.

"To cure a boil, you must locate and draw the core. The core to stockholders' troubles is Washington. Too many political paws in the Treasury trough. For stockholders to organize and put another paid lobbist there would be merely following in the footsteps of those that need to be thrown out. Those that either haven't the gumption, or care not a tinkers dam about the country's finances. Those that are now talking of financing the world at the end of a victorious war, that actually, on a financial basis, was lost two years before Pearl Harbor, and that will have us on the brink of bankruptcy, if it lasts another 18 months.

"So long as this motley crew remains in Washington, the stockholders road will not be a smooth one, and about the only consolation is to remember the tide not only flows, it ebbs too; must be near ebbtide."

KILBY CALAWAY,
Wilmington, Del.

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